

To: All members, warehouse companies & London agents and other interested parties

Ref: 14/318 : A310 : W148

Date: 7 November 2014

Subject: **CONSULTATION ON PROPOSED AMENDMENTS TO THE POLICIES AND PROCEDURES RELATING TO THE LME'S PHYSICAL DELIVERY NETWORK**

Summary

- 1 The LME is today announcing a market-wide consultation (the "Consultation") in respect of amendments to its policies and procedures relating to its physical delivery network.
- 2 Primarily, this will address the need to ensure that the LME's physical network fully services the requirements of the global metals market.

The Consultation process

- 3 The Consultation is open to all interested market participants, and also regulatory and governmental bodies.
- 4 Formal responses to the Consultation should be submitted in writing. Any market participant wishing to submit a response to the Consultation, or to arrange for further discussions seeking clarification in relation to the Consultation, is asked to contact Georgina Hallett at consultation@lme.com or +44 (0)20 7423 5780.
- 5 Although the LME will consider responses submitted in any format, it would be most helpful if respondents can reply to the numbered Consultation Questions set out throughout this Consultation Notice.
- 6 During the period of the Consultation (see below), the LME will, subject to reasonable logistical constraints, be available for meetings to discuss the subject matter of the Consultation.
- 7 Responses made after the closing date of the Consultation (see below) will not necessarily be taken into consideration. The LME may need to share responses received with regulatory authorities or its legal or other professional advisers, or as required by law. Apart from this, all responses received will be treated in confidence.



Warehouse Consultation

- 8 In parallel with this Consultation, the LME is also undertaking a consultation with Warehouses on proposed changes to the Warehouse Agreement (the “Warehouse Agreement Consultation”).

Historical background

- 9 On 1 July 2013, the LME announced (in Notice 13/208 : A201 : W076) a consultation in respect of queues at LME-licensed warehouses (the “2013 Consultation”). In particular, the 2013 Consultation proposed the introduction of a linked load-in / load-out rule. The 2013 Consultation ran from 1 July 2013 to 30 September 2013 and saw strong market engagement.
- 10 On 7 November 2013, the LME announced in Notice 13/326 : A312 : W125 (the “Decision Notice”) the outcome of the 2013 Consultation, including the adoption of the Linked Load-In / Load-Out Rule as proposed, with one modification¹ and certain clarificatory drafting changes (the “2013 LILO Rule”), together with a set of other measures. The LME also published a comprehensive report on the 2013 Consultation (the “2013 Consultation Report”).
- 11 In the 2013 Consultation Report and Decision Notice, the LME undertook to implement a Warehouse reform package with twelve core elements. Of these twelve core elements, six have already been implemented: (a) separate steel load-out rate, (b) per-warehouse queue length report, (c) commitments of traders report, (d) creation of the Physical Market Committee, (e) specific powers for the LME to address behaviour that creates or maintains queues (clause 9.3.4 of the Warehouse Agreement), and (f) information barrier policy review. Notice 14 / 276 : A268 : W136 updated the market on progress in respect of the LME’s reforms of its physical delivery network, including the status of the LME’s appeal to the Court of Appeal against the decision of the English High Court of Justice in relation to the Judicial Review brought by United Company Rusal plc (“Rusal”) (the “Appeal”), and the impact of the Appeal on the implementation of the LME’s planned programme of warehousing reform, as well as providing further detail on proposed warehousing rules to support LME premium futures contracts.
- 12 A summary of the remaining elements of the Warehouse reform package, together with information on how the LME is addressing each element, is set out below:

¹ An altered queue threshold.



- a. **Implementation of the LILO Rule.** Following the recent judgment of the Court of Appeal, the LME intends to implement the LILO Rule with effect from 1 February 2015.
- b. **Warehousing logistical review.** This is covered by this Consultation (see below).
- c. **Warehousing Agreement review.** This is covered by the separate Warehouse Agreement Consultation.
- d. **Premium futures contracts.** This is covered by this Consultation (see below).
- e. **Re-assessing the possibility of capping or banning rents in queues** (see below).
- f. **Re-assessing the possibility of capping the level of daily rents and FOTs** (see below).

13 Rusal have now sought leave to appeal the Judicial Review proceedings to the Supreme Court. Given the relevance of (e) and (f) above to the ongoing proceedings brought by Rusal, the LME cannot address these items further at this time.

Elements of the Consultation

- 14 This Consultation puts forward the following proposals (the “Proposals”):
- a. As detailed above, the LME committed to commission an independent report into broader aspects of the LME's physical network and logistical arrangements (the “Logistical Review”). This work has now been undertaken by Oliver Wyman, and is attached as Appendix A (the “Logistical Review Report”). The LME has largely accepted the suggestions made in the Logistical Review Report, and is proposing a set of changes to its Policy on the Approval and Operation of Warehouses (Appendix B) and Policy on the Approval of Locations as Delivery Points (Appendix C) in order to give effect to these suggestions (the “Logistical Review Report Proposal”). The changes to the Policy on the Approval and Operation of Warehouses and the Policy on the Approval of Locations as Delivery Points also incorporate certain administrative or other amendments which the LME believes would be helpful for the market.



- b. The LME also committed to launch a set of regional premium contracts, which require modifications to the LME's warehousing policies in order to function effectively (the "Premium Contract Rule Proposal").
- c. The LME is, additionally, taking the opportunity to propose a further change not covered in the 2013 Consultation, but which it believes will assist the success of its existing aluminium alloy and NASAAC contracts (the "Aluminium Alloys Rule Proposal").

Timing and steps following the Consultation

- 15 Following due consideration, the LME may implement either:
- a. in respect of each of the Proposals, that Proposal, a modified version of that Proposal, an alternative to that Proposal, or no measure in respect of that Proposal;
 - b. any other measure(s); or
 - c. no measures.
- 16 In the event that the LME decides to adopt any new rules following the Consultation, the LME presently intends to adhere to the following timetable:
- a. the Consultation will run between 7 November 2014 and 9 February 2015;²
 - b. the LME will aim to publish its conclusions by mid-March 2015;
 - c. the three-month notice period required under the Warehouse Agreement will run between mid-March and mid-June 2015; and
 - d. any new rules adopted as a result of the Consultation will come into effect around mid-June 2015.

The LME's financial interest

- 17 As the market is aware, pursuant to the LME stock levy, the LME receives 1.1% of the rent charged by LME-licensed Warehouses on LME-warranted metal (including metal waiting in queues). This rate has not increased since 2002, and the LME's decision-making process, and its conduct of the Consultation, is in no way influenced

² This will also encompass the consultation with Warehouses under the Warehouse Agreement.



by the existence of the stock levy. The LME's focus on ensuring that prices can be effectively discovered on the LME is essential in order for the LME to ensure that the market functions in an orderly manner in accordance with its regulatory obligations. It is also important to the LME's value as an ongoing business, and hence these two factors far outweigh any financial return which could accrue as a result of the stock levy on rents in any economic circumstance.

THE LOGISTICAL REVIEW REPORT PROPOSAL

- 18 Oliver Wyman has produced the Logistical Review Report, which is attached as Appendix A. The Logistical Review Report provides a full assessment of the various issues which the Logistical Review was tasked to cover, and the reader's attention is hence drawn to that document for a full exploration of the various issues and proposals.
- 19 The LME has largely accepted the suggestions made in the Logistical Review Report³, and is hence proposing to make the rule changes set out in the Policy on the Approval and Operation of Warehouses (Appendix B) and the Policy on the Approval of Locations as Delivery Points (Appendix C), which give rise to the various changes advocated by Oliver Wyman. Note that the blackline of the Policy on the Approval and Operation of Warehouses shows the changes as against the version currently in force. As announced by separate Notice, the changes relating to LILO will take effect on 1 February 2015.
- 20 The LME welcomes the recommendations relating to best practice for warehouse companies set out in section 4.1 of the Logistical Review Report. Going forward, as part of its routine audits of Warehouses, the LME intends to review how Warehouses are implementing these recommendations as set out in section 4.1 of the Logistical Review Report at Appendix A to ensure the efficiency of their operations, consistent with meeting their obligations to LME warrant holders.
- 21 The LME also proposes to make certain other changes to the Policy on the Approval and Operation of Warehouses. These include:
 - a. Separate daily additional load-out quantities for tin and nickel (where previously the load-out requirement referred to a combined tonnage for both

³ With the exception that the LME has not accepted the suggestion in section 3.2 of the Logistical Review Report that it "create a probation period of two years to monitor whether operations of a new Warehouse are carried out according to the LME standard", during which period the LME would have the right to suspend or delist the warehouse company on three months' notice; as the LME already has adequate powers to terminate set out in section 9.4 of the Warehouse Agreement including the ability to terminate and delist a Warehouse by the service of six months' prior notice.



such metals). In order to ensure appropriate load-out rates for both tin and nickel, the LME considers that there should be a separate obligation in relation to each of these metals. The additional load-out obligations for tin and nickel take a similar approach to that proposed for Aluminium Alloys (see below).

- b. Clarification that a "dominant metal" will always be the first metal scheduled to be delivered out on any given day. This is to ensure that it is clear that there can only ever be one "dominant metal" on a daily basis, regardless of whether more than one metal exceeds the scheduled delivery-out threshold on that day.
- c. Clarification that charges above the Free on Truck charge ("FOT") for the return of metal can only be applied by Warehouses in certain limited circumstances. This is to reflect the fact that additional charges will typically only be appropriate when returning metal to certain Delivery Points, in order to reflect the increased logistical and transport costs incurred by Warehouses in such Delivery Points.

22 Market feedback is requested in relation to these rule changes.

Consultation Question 1: Do you have any comments on the changes to the Policy on the Approval of Locations as Delivery Points or the Policy on the Approval and Operation of Warehouses?

THE ALUMINIUM ALLOYS RULE PROPOSAL

23 Since the 2013 Consultation, the LME has invested significant time in assessing the performance of both the aluminium alloy and the NASAAC contracts (collectively "Aluminium Alloys"). It is the view of the LME that, as relatively low-volume contracts with accordingly lower volumes of warranted stock, Aluminium Alloys suffer particularly from the existence of queues composed of primary aluminium.

Construction of the Aluminium Alloys Rule

- 24 The additional load-out requirements in relation to the Aluminium Alloys Rule are set out in the Policy on the Approval and Operation of Warehouses in Appendix B, and are summarised below.
- 25 Any Warehouse licensed to warrant Aluminium Alloys will be subject to an additional load-out requirement of 500 tonnes per day for its Authorised Warehouses in a particular Delivery Point (being the "Aluminium Alloys Minimum Daily Load-Out") of Aluminium Alloys. This will operate as with the current nickel and tin requirement, i.e. if the normal course scheduling of metal in the queue (including the non-dominant metal load-out requirements, but not including any additional requirements



under the LILO Rule) does not result in 500 tonnes of Aluminium Alloys being loaded-out, then additional load-outs must be made (in the order of Aluminium Alloys warrant cancellation) such that total Aluminium Alloys load-out is at least 500 tonnes.

Benefits of the Aluminium Alloys Rule

- 26 The core benefit of the Aluminium Alloys Rule, in the view of the LME, is the reduction in the discount to the all-in price at which the Aluminium Alloys trade – which, based on feedback from the market, is a core barrier to broader uptake of the contracts by key market participants.

Unintended consequences of the Aluminium Alloys Rule

- 27 The primary potential negative consequence of the Aluminium Alloys Rule is that Warehouses may choose to increase their rates in respect of Aluminium Alloys, to reflect any greater costs which may be associated with providing separate load-out rates. However, the LME considers that the benefit of the Aluminium Alloys Rule outweighs any negative consequence.

Key parameters of the Aluminium Alloys Rule

- 28 The key parameter in respect of the Aluminium Alloys Rule is the Aluminium Alloys Minimum Daily Load-Out. The LME has calibrated this figure based on current Aluminium Alloys stocks, and believes that a load-out of 500 tonnes per day would restore price convergence to the contract.

Consultation Question 2: Do you have any comments on the Aluminium Alloys Rule Proposal?

THE PREMIUM CONTRACT RULE PROPOSAL

- 29 In Notice 14/121 : A117 : W056, the LME announced its intention to launch a set of regional premium hedging contracts, initially in respect just of aluminium, but potentially in relation to other metals as well. These contracts will be settled via existing LME warrants – however, the contracts will have more restrictive rules as to which warrants (such eligible warrants being “Premium Warrants”) can be used in settlement. Notice 14/276 : A268 : W136 provided further information on the proposed construction of the premium contracts.
- 30 In particular, it is currently envisaged that only Warehouses without queues in a particular Delivery Point will be eligible for the delivery of warrants against LME premium contracts in that Delivery Point. However, a core concern for the LME in respect of premium contracts is the emergence of queues at Warehouses in that Delivery Point which previously did not have queues.



- 31 For example, consider that a long holder of an LME premium contract takes delivery of a Premium Warrant at a Warehouse not affected by queues. If, immediately following the delivery of this warrant, other metal owners in the associated Warehouse were to cancel large quantities of metal, then it is possible (under the existing rules) that a queue could build up at that Warehouse in the particular Delivery Point, which would then affect the ability of the recipient of the Premium Warrant to readily access the underlying metal. While the LME believes that its new powers (contained, in particular, in Clause 9.3.4 of the Warehouse Agreement) will materially restrict the creation of any new queues, it remains possible for such queues to arise, particularly over a short timeframe driven by material warrant cancellations.
- 32 Accordingly, it is the view of the LME that those receiving premium contracts require greater protection, otherwise the contract (which was requested by a broad set of market participants during the 2013 Consultation) will not function effectively.
- 33 Specifications for the LME premium contracts will be set out in the LME rulebook (contained within a new section to be entitled the “Premium Contract Regulations”). Because the precise specifications cannot be set out until this Consultation has concluded, a summary of the proposed specifications is provided in Appendix D.

Construction of the Premium Contract Rule

- 34 The Premium Contract Rule is set out in the Policy on the Approval and Operation of Warehouses in Appendix B, and is summarised and explained below.
- 35 Within the LMEsword system, it is proposed currently that functionality will be added whereby London agents, acting on the instructions of a Warehouse, can endorse warrants as Premium Warrants in respect of a given premium region and given metals (such regions and metals being defined in the Premium Contract Regulations). Warrants not so endorsed will be referred to as “Standard Warrants”.
- 36 In order for a Warehouse to endorse a warrant as a Premium Warrant, it is proposed that the following conditions must be satisfied:
- (i) The Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations. So, for instance, a Warehouse located in Chicago would be able to endorse US Premium Warrants, whereas a Warehouse located in Rotterdam would be able to endorse Western European Premium Warrants.



Warehouses not located in any premium region (e.g. a Warehouse in Liverpool) are not able to endorse any form of Premium Warrant;

(ii) The Warehouse must have opted-in to the premium warrant regime, by completing the appropriate agreement with the LME. The LME will publish a list of all Warehouses which have opted-in to the premium warrant regime. Once opted-in, a Warehouse in a particular Delivery Point may only opt-out if its stock of Premium Warrants is zero; and

(iii) At the time of endorsement of the Premium Warrant, the Warehouse in the particular Delivery Point must not have a queue in respect of any LME metal. Furthermore, if a metal owner, having cancelled a warrant, completed the necessary formalities and requested prompt load-out by truck, is told by the Warehouse that load-out cannot be completed within two London business days, the Warehouse will have an immediate duty to inform the LME, which will then (within one London business day) announce to the market that the Warehouse will cease to be able to endorse new Premium Warrants three London business days following such announcement. This three day period is designed to ensure that metal owners in the process of creating Premium Warrants for use in contract delivery are able to complete such process before the Warehouse is prohibited from endorsing Premium Warrants.

However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a queue at a Warehouse may impact their ability to create Premium Warrants at the Warehouse in that Delivery Point. Accordingly, those holding short positions in respect of LME premium contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.

For the avoidance of doubt, the emergence of queues at a Warehouse will not change the status of Premium Warrants previously issued by that Warehouse – such warrants remain as Premium Warrants.

Warehouses which have cleared their queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication of the next monthly per-Warehouse queues report confirming that no queues remain.

The ability to endorse Premium Warrants applies at the level of all of the Authorised Warehouses (the sheds of a particular Warehouse) of a Warehouse in a particular LME-approved Delivery Point – the new definition of "DP Warehouse" in the Policy on the Approval and Operation of Warehouses will capture this meaning. Accordingly, if a Warehouse has a queue in one Delivery Point, this will not prevent



that Warehouse endorsing Premium Warrants at its facility in a different Delivery Point, provided that the second facility does not have a queue.

A new definition of "DP Warehouse", meaning all the Authorised Warehouses of a particular Warehouse within a Delivery Point, has been introduced to the Policy on the Approval and Operation of Warehouses so as to clarify the application of the policy, and, in particular, the Premium Contract Rule and the LIFO Rule. The new definition is consistent with the meaning of the term "Warehouse" as it applies in the current version of the LIFO Rule.

(iv) A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:

- In connection with fresh metal loaded-in to the Warehouse, a warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the premium warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
- An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply.



- 37 Once a warrant has been endorsed as a Premium Warrant, treatment of that Premium Warrant is as for a Standard Warrant for as long as the Warehouse in that Delivery Point does not have a queue. However, to the extent that a queue arises, then the Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate queue. It is proposed that the minimum daily load-out rate for such metal will be the higher of:

1,000 tonnes per day (the “Minimum Premium Warrant Load-Out Requirement”)

and

3% of the total stock relating to Premium Warrants (live and cancelled) three business days following the announcement of a queue in the Warehouse in that Delivery Point (the “Premium Warrant Load-Out Percentage”)

- 38 For the avoidance of doubt, nothing in respect of load-out obligations for Premium Warrants will change the treatment required for Standard Warrants – load-out obligations for Premium Warrants are in addition to those already applying to Standard Warrants. The currently published load-out rates (modified as appropriate for other rules adopted as a result of this Consultation) will continue to apply to Standard Warrants, and the basis on which minimum load-out rates for Standard Warrants are calculated will take into account total stored tonnage in the Warehouse, both Standard Warrants and Premium Warrants.

Benefits of the Premium Contract Rule Proposal

- 39 The core benefit of the Premium Contract Rule is that greater certainty can be given to the buyers of warrants through premium contracts that the warrants they receive in settlement will, indeed, be readily-accessible. In the absence of such action, there would exist various abusive scenarios in respect of the LME’s premium contracts – for example, a metal owner holding a large number of uncanceled warrants in a Warehouse without a queue could deliver one of those warrants against a premium contract, while simultaneously cancelling all of the remaining warrants and creating a queue. This would materially reduce the value of the warrant delivered in settlement (as it would subsequently sit in a queue), and the original seller could then offer to buy it back for a discount. By then re-warranting the cancelled warrants which it still owned, the original seller would then restore the value of the delivered warrant back to a premium level.

Unintended consequences of the Premium Contract Rule Proposal

- 40 In general, the unintended consequences of the Premium Contract Rule Proposal are limited, given that opt-in is required from both Warehouses and metal owners.



As such, any market participant which does not agree with the Proposal is free not to participate in the Rule.

- 41 In particular, the Rule does not disadvantage holders of Standard Warrants, in comparison to their current situation, as no load-out rates for Standard Warrants can be reduced as a result of the Rule. Indeed, the Rule will likely lead to improved efficiencies for holders of Standard Warrants, given that a Premium Warrant cancelled prior to the cancellation of a Standard Warrant (which, in the absence of the Rule, would have resulted in the Premium Warrant being ahead of the Standard Warrant in the queue) will be loaded-out pursuant to a separate queue, hence accelerating the passage of the Standard Warrant in the existing queue.
- 42 As a boundary condition, it is possible that the load-out of a Standard Warrant may be delayed because a Premium Warrant cancelled after the Standard Warrant is loaded-out more expeditiously, resulting in the total Warehouse stock falling below one of the thresholds and hence leading to a lower required load-out rate for the Warehouse. This could slightly delay the load-out of the Standard Warrant compared to a scenario in which the Rule were not in force. However, the LME thinks this is very much an exceptional scenario, and does not believe that it represents a major concern in respect of the Rule.
- 43 Given the greater requirements attaching to Premium Warrants, it may be expected that Warehouses will set levels of rent and FOT in excess of those for Standard Warrants, which may further accentuate the concerns of the market in respect of perceived high levels of rent and FOT. However, it should be noted that the construction of the regional premium contract is fundamentally different to that of the core LME contract, in that the cash payment from buyer to seller at settlement is reduced by the rate of FOT associated with that transferred warrant. As such, the seller effectively funds the FOT, and a metal owner looking to create a Premium Warrant and deliver against an LME premium contract is hence incentivised to choose the most competitive level of FOT. Although the buyer will need to fund rent after the transfer of the warrant, the buyer has the option (in the event of considering that rent in the Warehouse is unreasonable) to load-out the metal (given that the FOT will have been paid, in effect, by the buyer).
- 44 Notwithstanding the above, the mechanism by which FOT is paid to the Warehouse remains the same, i.e. a cash payment from the cancelling metal owner to the Warehouse.



Key parameters of the Premium Contract Rule

- 45 The Minimum Premium Warrant Load-Out Requirement has been set to 1,000 tonnes per day on the basis of the LME's expectations as to the potential volume of Premium Warrants likely to be created.
- 46 The Premium Warrant Load-Out Percentage has been set to 3%. Accordingly, even if in the worst case all warrants were cancelled simultaneously, the longest queue which could be expected to exist at the Warehouse in respect of Premium Warrants would be 34 business days. This is broadly comparable to the 30 days threshold which is viewed by the LME as being an average sourcing horizon for a metal consumer requiring access to metal bought in the physical market.

Consultation Question 3: Do you have any comments on the Premium Contract Rule Proposal?

Consultation Question 4: Are there any other matters you wish the LME to consider in the context of any aspect of the Consultation?

Matthew Chamberlain
Head of Business Development

Cc: Board Directors
Warehousing Committee
Special Committee
Physical Markets Committee
User Committee
All metals committees



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LME Warehousing Logistics Review

Findings

November 2014



REPORT QUALIFICATIONS/ASSUMPTIONS & LIMITING CONDITIONS

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1. Scope of the report

1.1. Origin of the report

In the Warehousing Consultation Report published in November 2013 by the LME, a number of issues were flagged for review in a separate, independent study. These issues form the subject of the work undertaken by Oliver Wyman and described in this report, the LME Warehouse Logistics Review.

The topics reviewed by Oliver Wyman relate in particular to two LME documents, the LME Policy and Guidelines for Good Delivery Points, and the LME Policy Regarding the Approval of Warehouses.

1.2. Areas covered

The Warehouse Logistics Review analyses and provides suggestions in three areas:

1. Criteria for good delivery points and warehouse approval

Review of the approval criteria used by the LME, both for good delivery points and warehouse approval. This includes creating/removing criteria, changing thresholds and clarifying concepts

2. Warehouse operations

Specialist advice in considering what could be reasonable operational expectations and requirements for warehouses for the loading-in, holding, and loading-out of metals. This includes the analysis of logistics capacity rates, the load-out definition and the main operational processes currently followed by the warehouse companies when loading-out metal. These analyses cover the question of the appropriate balance between LME delivery points/warehouses receiving-in unlimited volumes of metal as the market of last resort and delivery points/warehouses being able to meet reasonable operational requirements for the delivery of metal to owners

3. Approval process

Review of the approval process for good delivery points, warehouses and sheds. This includes the roles of committees, required documents and due diligence to be carried out during the assessment of the applications

Topics explicitly excluded from this non-legal review include (but are not limited to):

- Minimum load-out rates and the load-in/load-out mechanism
- Management of existing queues, including banning rent in queues, prioritization of certain types of metal owners, etc.
- Any measure capping the volume of metal stored, loaded-in, re-warranted, etc.
- Fees and charging practices of warehouse companies

These recommendations were made only from a logistics perspective and any potential legal considerations will have to be assessed separately by the LME.

1.3. Methodology used

To produce this report, input was gathered from the LME and from market participants:

1. Input from the LME

- a. Qualitative input: Oliver Wyman conducted multiple interviews and weekly working sessions with LME staff, mainly with the Physical Operations and Business Development teams, to gain an understanding of the current situation
- b. Quantitative input: In addition to interviews, Oliver Wyman collected data and information from the LME including metal statistics, processes, past applications, etc.

2. Input from market participants

- a. Warehouse/location site visits
Eight site visits were conducted across Europe, the US and Asia to discuss key issues directly with warehouse operators and observe operations in their warehouses. In addition, meetings and visits were conducted with three different port authorities
- b. Participation of LME committees
The review process and timing was presented to LME standing committees. In these meetings, questions and comments were noted for further investigation and the opportunity for one-on-one meetings was confirmed
- c. One-to-one sessions
As per the LME notice of March 3rd 2014 (“Invitation to market participants to engage with the LME logistical review”) to the market stakeholders, one-on-one discussions were offered by Oliver Wyman to any market stakeholder interested in presenting its view on logistics operations at the LME. Twenty-one market participants across the value chain (producers, traders, etc.) met with Oliver Wyman over the course of the work

Data and information collected were analysed by the Oliver Wyman team, which included experts in logistics, commodities trading and exchanges.

1.4. Structure of the report

The report is structured in line with the scope of the review described above, including sections on:

- Criteria for good delivery point approval
- Criteria for warehouse approval
- Logistics operations
- Approval process

For each area the same structure is used, first describing the issues, then the findings from our analysis and finally, suggestions for changes in the LME's Policy and Guidelines for Good Delivery Points, and the LME Policy Regarding the Approval of Warehouses.

1.5. Network principles

The LME looks to manage its warehouse network based on a set of principles that can be summarised as follows:

- **Low supply chain costs:** Metal going through the LME network should generate the minimum additional costs and delivery time possible vs. metal directly sourced from a producer
- **Highest liquidity:** Although locations of production and consumption evolve slowly, levels of production and consumption can vary significantly from year to year and cycles may be desynchronized across regions. The LME network should allow market force balancing mechanisms to act in the most efficient way for metal owners
- **Homogeneity of good delivery points:** From a metal owner's perspective, variance across good delivery points should be minimal (in terms of cost of service, type of infrastructure available, destinations accessible, time to access different relevant terminals, etc.) so that the metal acquired on the LME is equally accessible wherever it is stored, and does not require additional operations or costs to make it available to the owner

The analysis has been conducted and suggestions made on the basis of seeking to conform to these principles.

It should be noted that the LME does not operate the warehouse network, rather it authorises and regulates delivery points and operators. As part of its regulatory function, through the warehouse policy and guidelines, the LME imposes requirements to safeguard the integrity of the LME network. It does not, however, control the operating processes or relationship between warehouse companies and metal owners.

2. Criteria for good delivery point approval

The main criteria taken into account by the LME when assessing an application from a location to become an LME listed good delivery point include the following:

- Area of net consumption
- Logistically sound conduit
- Minimum draft
- Minimum berth loading/unloading capacity
- Container and break-bulk terminals
- Rail connection
- Good delivery point boundaries
- Inland delivery points
- Minimum number of warehouse companies when listing a new delivery point

This section lays out issues raised, findings and any suggested changes for each of these criteria.

2.1. Area of net consumption

Issues raised

The definition of area of net consumption has not been defined in the past, and this has led to some questions being raised, e.g.

- What timeframe is appropriate to be considered (from intra-year peak of consumption until consistent long-term trend of e.g. 10 years)?
- How should the notion of area be interpreted (e.g. very local vs. more global)?
- Should major trade and logistics hubs be denied good delivery status if they are not part of an area of net consumption?

Findings

Different interpretations of “area of net consumption” could potentially result in differing conclusions on whether a delivery point should be listed.

“Net consumption” would typically be indicated by a negative trade balance for the metal in question. Trade patterns typically show consistent long-term trends when examined over a multi-year period; however, metal consumption and production often have seasonal fluctuations and can be disrupted by supply or demand events. Thus trade balances should be assessed over a sufficiently long period to eliminate volatility effects.

There is no consistent definition of “area”. “Area” can be defined depending on the specific delivery point, and can cover different circumstances:

- A sub-region in the case of large countries (e.g. United States)
- A country (e.g. Germany)
- An aggregation of small countries with an integrated surface logistics network (e.g. Netherlands and Belgium)

Very large trade hubs can benefit the network by allowing flows to be consolidated and deconsolidated and support movement from one region to another (e.g. flows from Europe to Asia might go through regional hubs). Nonetheless, these locations would tend to need to be in areas of net consumption, or to remotely serve areas of net consumption (e.g. where the LME network is not directly present today), to prevent distortion of the network.

Suggested changes

We suggest making explicit the definition of “Area of net consumption” in the Policy and Guidelines for Good Delivery Points (significant negative trade balance over a consecutive two-year period, with the associated clarification of the notion of area).

2.2. Logistically sound conduit

Issues raised

Good delivery points are required in the Policy and Guidelines for Good Delivery Points to be a “logistically sound conduit”. This is not further defined however, which has raised questions of interpretation in the past.

Findings

Observation of the current network shows that two types of logistics issues can develop related to this point:

- If metal is not stored on “natural” trade lanes (e.g. trade lanes which would exist without LME warehouses), using the LME system generates additional supply chain costs vs. direct metal flows
- In the case of a demand imbalance in the world (i.e. low demand in one region and high demand in another region), metal in poorly connected delivery points will be more difficult to move to delivery points where there is more demand

Local and long distance connectivity can be taken into account in defining “logistically sound conduit”:

- Good delivery points should be positioned on a natural route to specific consumption centres to reduce additional supply chain costs. This characteristic can be assessed based on the volume of metal going through the delivery point
- Good delivery points should be well connected to different global consumption centres, to improve the ability to move the metal in case of demand shifts. This characteristic can be assessed through the number of deep sea connections (number of O/D services, frequency of services, number of shipping lines serving the good delivery point) and the volume handled by the good delivery point (both break-bulk and containers)

Suggested changes

We suggest adjusting the Policy and Guidelines for Good Delivery Points to define “logistically sound conduit” to reflect both local and long distance connectivity.

Regarding local connectivity: The delivery point should be positioned on the natural route to the consumption centres that it serves (or potential route if consumption is due to increase in future, e.g. due to the set-up of a new plant). This can be assessed through a meaningful amount of metal going through the delivery point.

Regarding long distance connectivity: To assess if a good delivery point is on a logistically sound conduit, two proxies could be used:

1. **Volume:** A relevant approximation for assessing volume handled can be TEU (Twenty-foot Equivalent Unit) handled by the port per year for containers and the volume of break-bulk handled by a port per year
2. **Connectivity:** An indicator for good accessibility could be the number of (deep sea) vessels which call at a port on a service that connects different regions of the world. This would include general cargo vessels, bulk carriers and container vessels longer than 200 metres, since these vessels frequently are ocean-going

Setting global thresholds for volume and connectivity could lead to geographic skews, because ports have different average sizes in different parts of the world – especially with regard to the many large Asian ports. Intra-region comparisons could therefore be used to evaluate ports.

2.3. Minimum draft

Issues raised

The current minimum berth draft of terminals at the good delivery points is 8 metres, which is insufficient for some common container and bulk vessels.

Classes of container vessels that have a deeper draft than the current LME requirement include Feeder (10 m), Feedermax (11 m), Panamax (12 m), New Panamax/Post Panamax (15 m) and ULCV (> 15 m). On the bulk carrier side, these are Handysize (10 m), Handymax (11 m), Panamax (12 m), Capesize (15 m) and VLBC (> 15 m).

A large part of the world's bulk carrier fleet and container vessel fleet have a draft of up to 11 metres:

- For container traffic, we estimate that Feeder (draft of up to 10 meters) and Feedermax (draft of up to 11 meters) have an approximate ~40% share of the worldwide fleet and capacity of 1,000-3,000 TEU (only approximately ~20% of worldwide container vessels are smaller than Feeder class¹)
- For bulk traffic, we estimate that Handysize (draft of up to 10 meters) and Handymax (draft of up to 11 meters) make up approximately 60% of the fleet ²

These vessels have a length of up to 200 metres and a typical deadweight between 10,000 and 50,000 tonnes. All mentioned classes usually serve global and regional trade lanes.

Findings

To enhance connectivity across good delivery points and between good delivery points and consumers, listed ports would ideally provide access to the most prevalent cargo and container vessels.

Note that draft not only applies to the berth, but to all of the access routes up to the berth (e.g. river draft, channel draft), and where there could be issues of overdraft, (e.g. bridges over rivers).

Suggested changes

For new delivery point applications, we recommend increasing the minimum draft capabilities of LME ports at approval to 11 metres to allow for these dominant ship classes. This draft requirement does not apply for inland delivery points.

¹ Worldshipping.org/bulkcarrierguide.com

² MAN: Bulk carriers – Propulsion Trends in Bulk Carriers

2.4. Minimum berth capacity

Issues raised

The LME currently requires berth capacity of three berths each with 1,500 tonnes of capacity per day at each delivery point. The question has been raised whether this is sufficient to handle metal coming to or leaving the delivery point, or if there is a risk of bottlenecks developing, which would contribute to queues.

Findings

Two different approaches were used to assess this requirement:

- Discussion with market participants: none reported capacity constraints at water terminals
- Analysis of volumes handled at ports (especially in ports where we know that there are more than 4,500 tonnes/per day of capacity): estimates of daily berth use over the past 8 years showed average load-in/load-out most of the time was below 4,500 tonnes per day. There were only two years of exception for one port, out of the ~35 LME good delivery points

Suggested changes

We do not suggest changing the minimum requirement of 3 x 1,500 tonnes of capacity per day as part of this logistics review.

2.5. Container and break-bulk capabilities

Issues raised

The question has been raised whether the LME should ease the break-bulk requirement for terminals in some regions (principally in Asia where container shipments were reported to account for more than 95% of maritime flows).

In addition, there is no definition of capability (for container or for break-bulk). This could range from a dedicated berth equipped with fixed quay cranes and dealing with a very significant traffic to a generalist berth where vessels can load/unload with their own cranes, but scarcely used in practice.

Findings

In North America and in Europe, break-bulk shipments for metal are still very popular despite the worldwide growth of containerized transport. In Asia, the share of break-bulk is much lower. However, even in Asia, break-bulk shipments are still used by some specific producers and some metal owners when they cancel large volumes of warrants.

For the requirement to be relevant, it should not refer to the theoretical possibility of break-bulk being offered to metal owners, but to a real option with efficient operations and significant sea connections. A delivery point that can support either container or break-bulk would need to have at least one, functional, dedicated berth with relevant quay fixed equipment (e.g. cranes).

Suggested change

We do not suggest changing the requirement for container and break-bulk terminals.

When assessing these capabilities in a given port, the LME could consider criteria such as dedicated berths and fixed equipment, and look for evidence that these are functional .

2.6. Rail connection requirements

Issues raised

Currently, the Policy and Guidelines for Good Delivery Points may require good delivery points to have rail connectivity.

Findings

In 2005, the LME carried out a survey among the warehouse companies in order to estimate the modal split (inbound and outbound) by delivery point. Since modal splits evolve relatively slowly over time, this data could still be used as a good proxy for the need for rail across countries. In particular, this data shows that the usage of rail differs widely by region, and even within regions in the case of Europe:

Continent	Country	Rail usage
Asia	Japan	No
	Malaysia	No
	Singapore	No
	South Korea	No
	Taiwan	No
Europe	Belgium	Yes
	Germany	Yes
	Italy	No
	Netherlands	Yes
	Spain	No
	Sweden	Yes
	Turkey	No
	UK	No
Middle East	UAE	No
North America	USA	Yes

In addition, when receiving an application from a delivery point situated in a new country, a specific study (independent from the data provided by the applicant) would be needed to determine if rail is required.

Suggested changes

We suggest specifying in the Policy and Guidelines for Good Delivery Points that:

- For existing good delivery points, rail connectivity is currently required in Western Europe (i.e. Germany, Belgium, Netherlands and Sweden) and in the US.
- Every time a delivery point applies from a new country/region within a country, a specific study could be carried out by the LME itself to assess the need for rail.

2.7. Good delivery point boundaries

Issues raised

Questions have been raised on the criteria used to determine the permitted geographical locations of warehouses at different good delivery points. This issue impacts the initial approval process and was raised in discussions with operators around the potential to expand boundaries to include new warehouses.

Findings

Good delivery point boundaries are set by the LME with the intention of:

- There being enough storage capacity at the good delivery point
- Being neutral for metal owners in terms of time and cost to access a water or rail terminal (i.e. a shed further away from the terminal should offer the same characteristics in terms of cost and connections as a shed close to the terminal)

Boundaries are typically determined by the port's fixed boundaries. Where no defined port boundaries exist, the LME has typically defined the boundaries in the application process.

Given the many intrinsic differences across delivery points, setting specific rules in advance for boundary setting is challenging. A case by case approach could nonetheless rely upon a common set of factors that are consistently taken into account, such as:

- Existence of free trade zones
- Availability of sheds/storage capacity within the current boundaries
- Distance and drive time from potential locations to terminals (containers/break-bulk, barge or rail terminals)
- Lack of congestion or potential bottlenecks (e.g. bridge with limited capacity) between potential locations and the different terminals
- Accessibility from any location to the highway network

In the case of expansion requests, increments of a small distance could be used so the profile of a delivery point is not substantially modified.

Suggested changes

We suggest clarifying that good delivery point boundaries should be reassessed in exceptional circumstances only, and only where there is a major shortage of storage capacity. The existing good delivery point boundaries would be considered as the starting point, with small increments used to determine boundary expansion.

The enquirer (e.g. warehouse company, port authority, etc.) would need to demonstrate the shortage of storage capacity before any review by the LME.

2.8. Inland delivery points

Issues raised

Although it mentions inland delivery points, the current Policy and Guidelines for Good Delivery Points does not lay out specific rules for their approval or operation.

The LME network is historically built around sea ports, which are receiving places for metal, but also places from which it is easy – if required by market circumstances – to reship metal to other places in the world. In addition, ports are usually well connected to inland transport networks (e.g. highway, rail, barging).

Findings

Some metal trade lanes, including major ones (e.g. Canada to the US for aluminium) are predominantly land based. These trade lanes cannot be served by storage facilities at ports without significant/costly detours. It is appropriate for inland warehouse locations to serve these very large routes. Nonetheless, an efficient network requires that the delivery points have excellent connectivity.

A set of criteria could therefore be applied to the approval of inland delivery points to maintain the efficiency of the network, including the following

- Natural position on a pure inland trade lane
- High connectivity (by road, rail, barge), including to both consumption areas and relevant ports of export in the region
- Capacity to handle large shipments by rail or barge
- Minimisation of transportation cost and time from warehouse to consumer and mitigation for local specificities (e.g. driver shortages, rail operations and infrastructure limitations)

If there are port delivery points on the same trade route, these could be chosen as LME delivery points instead of the inland delivery point.

Suggested changes

We suggest defining more clearly what an inland delivery point is and explicitly stating the requirements for approval of inland delivery points in the Policy and Guidelines for Good Delivery Points.

Inland delivery points could be defined as a location away from the sea without direct short-sea and deep-sea connections.

Requirements for inland delivery points could include:

- Location on a large inland trade lane (a route naturally taken by the metal from the area of production to the area of consumption, which only goes via land and which never runs through ports that are LME adequate)
- The same capacity requirements as for ports (4,500 tonnes per weather working day), achieved through rail and barge capacity
- Barge and rail connections

2.9. Minimum number of warehouses when listing a delivery point

Issues raised

The current Policy and Guidelines for Good Delivery Points – when assessing a good delivery point application – states that having two warehouse companies is the “preferred” option for the LME.

This language was adopted to encourage competition within a good delivery point, and therefore foster an environment for competitive fees and high service quality. Nonetheless, some good delivery points are listed that have only one operating warehouse company.

Findings

For a new delivery point, the desire of multiple warehouse companies to list in a delivery point can demonstrate a greater belief in the port as an important conduit in the global metal supply chain.

Having multiple operators from the beginning of its listing can help create competition within the good delivery point. There is not a specific formula that would give the right number of operators in a delivery point – this is rather a trade-off between the benefits of competition, operational feasibility and demand potential.

Suggested changes

For new applications of good delivery points, we propose adjusting the Policy and Guidelines for Good Delivery Points to specify that:

- More than one warehouse company by delivery point is the preferred option for the LME
- To be listed it must be possible for a delivery point to have more than one operating warehouse company

3. Revised criteria for warehouse approval

This section assesses issues raised around some of the criteria used to approve a warehouse company, including:

- Dominant infrastructure providers
- Warehouse companies applying for the first time
- Rail connectivity at the shed level

3.1. Dominant infrastructure providers

Issues raised

Companies that own or operate a significant amount of the infrastructure services in a certain delivery point may apply to operate an LME warehouse. A company may control one or more of the various different operations and services that are provided in a given delivery point including, for example:

- A terminal operator which operates all or most of the berths of a port
- A logistics company providing all or most of the logistics services in the port (haulage and warehouse operations)
- A company that owns all or most of the real estate/warehouses of the delivery point

In such circumstances there may be concerns regarding the extent of competition in the relevant areas, now and in the future.

Findings

Listing as an LME warehouse company an entity that controls services that are critical to other warehouse operators could be an issue if it disadvantages other warehouse companies.

This situation could lead to upward pressures on logistics fees, undue catchment of flows based on price or service advantages and possible exclusion of third parties from opening warehouses.

Suggested changes

We suggest the LME should consider whether the policy regarding the approval of warehouses can be amended such that (whilst due consideration is given to all applicants), the LME would not approve warehouse providers that:

- Control the operation of any infrastructure or the provision of any service in the delivery point that is believed to be critical to other warehouse companies in the delivery point concerned

- And where the LME has a genuine concern that the applicant's operation of an LME warehouse could be detrimental to competition.

3.2. Warehouse companies applying for the first time

Issues raised

Storing metal requires specific expertise, and LME operations add peculiarities (e.g. warranting operations in the system, lotting of metal in warrants) where additional knowledge is required.

Whilst listing a warehouse company that is new to the LME network can bring in more competition and broaden the range of options for metal owners, there is a risk that operations might not meet the LME's objective requirements and standards (for example, errors in warranting operations, delay in operations, etc.). In addition, although it is possible to delist a company that is not meeting the LME requirements and standards, the process has an impact on market participants and should be minimised where possible.

Findings

The LME can encourage new warehouse companies to apply while setting requirements to minimise operational risks. In particular, it can monitor the LME specific processes (e.g. warranting of lots) and try to ensure they are followed during the first years when a new warehouse company is approved in the network.

Suggested changes

For new applications going forward, we suggest making changes to the LME Policy Regarding the Approval of Warehouses for any company that is listed for the first time in the LME network:

- Require some key operating staff of the applicant to have good systems and metals experience to enable seamless integration into the LME network
- Create a probation period of two years to monitor whether operations are carried out according to the LME standard. During or at the end of this period, the LME would have the right to suspend or delist the warehouse company on three months' notice where it reasonably believes that the warehouse company is unable to comply with any relevant requirements. In case the LME decides to delist the warehouse company, the latter would be bound by the obligations of a company delisting

3.3. Rail connectivity at the shed level

Issues raised

Currently, a rail connection is required for all warehouses in certain regions. This requirement aims to increase throughput capacity and homogeneity of shed profiles, and lower load-out rates (although rents might be higher due to higher fixed costs, as a result of investment in rail spurs).

However, in some delivery points there may be a lack of sheds with rail access, which can form a barrier to entry (or one warehouse company could acquire all warehouses with rail spurs). Also, investing in a rail connection to a warehouse is a significant capital investment.

Findings

For ocean port delivery points, removing the requirement for a rail connection at the shed level could potentially help increase competition in some circumstances.

When listing a new shed which does not have rail access, the rail terminal to be used by that shed would need to have capacity for the extra metal volume. In addition, there would need to be an obligation on the part of the warehouse company to return the metal to the rail terminal when asked by the customer.

In inland delivery points, rail connections are important since rail is a key component of connectivity, especially for large shipments. In this case, the obligation of rail spurs at the shed level must be maintained.

Suggested changes

For the new applications of warehouses going forward, we suggest easing the rail requirement at the shed level (provided that the country has a rail requirement as described in section 2.6), and replacing this requirement by the following new criteria:

- For ocean port delivery points, warehouses without direct rail connections will be considered for listing if it can be demonstrated that adequate shuttle services to the railhead can be provided by the warehouse company at its own cost and risk
- However, for inland delivery points, rail should still be required at the shed level

4. Operations

This section reviews some key elements of operations and processes at warehouse companies:

- Logistics productivity (in terms of load-in, storage and load-out)
- Load-out definition
- Slot characteristics (slot scheduling process, management of dynamic queues, slot time windows, responsibility sharing between the metal owner and the warehouse company)
- Logistics rates structure

4.1. Logistics productivity

Issues raised

The question was raised to what extent productivity of warehouses varies and whether steps could be taken by the LME to improve warehouse productivity.

Findings

During the course of the study, short site visits were made by Oliver Wyman to eight warehouse companies and locations.

A range of general and local factors can be seen to have an influence on productivity, including:

- Warehouse configuration: number of doors, space occupancy, number of bundles in height and sorting, stacking, storage and systems efficiency
- Warehouse operations: efficiency levels in operating, assets per m² (forklifts, workers), allocation of assets and services in/around the warehouse, scheduling practices
- Modal availabilities: availabilities of pre-ordered rail sets, frequency of exchanging rail sets, trucking capacity
- Cancellation patterns: unitized vs. large batches
- Other: weather conditions, illnesses

The LME regulates a third party network. Warehouse companies make their own trade-off between efficiency and operating costs. In general, increasing the load-out rate generates some additional costs (related to investment or operating processes), or foregone revenue (related to looser storage patterns for instance).

The key point for the LME and the market is whether the warehouse company is meeting expectations in terms of delivery capacity (poor productivity does not necessarily compromise this objective).

Rules around process or efficiency standards could be difficult to define, with the need to take into account differences in local conditions and practices, and may be challenging to enforce. Given this, it is appropriate that warehouse companies are primarily steered through an obligation of results.

Nonetheless, based on our discussions with market participants, site visits and prior experience, we have observed a number of good practices that, if followed, could help improve logistics productivity.

Suggested changes

We do not recommend any change in the LME Policy Regarding the Approval of Warehouses related to this point.

However, we suggest that the LME continue to identify and communicate good practices, and encourage warehouse companies to implement them to improve the overall efficiency of the network. An initial, non-exhaustive, list of good observed practices is shown below:

Load-in	Initial staging of metal	• Metal coming from the same shipment stored together
	Time of operations	• Load-in operations (e.g., weighting and lotting) performed at a time different from load-out operations (e.g., 2nd shift or at night)
Storage	Space	• 65% (not 80%) of warehouse floor space for storage • Outside loading space equivalent to 50% of warehouse space
	Vertical storage	• 3 or 4 heights for Aluminium (not 5-6 heights)
Load-out	Load-out preparation	• Pre-staging of metal close to the loading area • Optimisation of dig-out in advance (up to one week in case of queues) • Sequence of order of warrants for load-out based on dig-out minimization
	Loading	• Loading of trailers in advance (i.e., before the tractor arrives) • Time window of truck loading (e.g., 3-hour)
	Labour and assets	• 2 forklifts for loading a truck / railcar / container • Staff assigned to a warehouse for a specific day – avoid inter-sheds transport

4.2. Appropriate balance between load-in and load-out volumes

Issues raised

The study scope raised the question as to the appropriate balance between LME delivery points/warehouses receiving-in unlimited volumes of metal as the market of last resort and delivery points/warehouses being able to meet reasonable operational requirements for the delivery of metal to owners.

Findings

From a logistics perspective, load-in and load-out processes have some key differences that help warehouses to manage the balance between acting as market of last resort and the delivery out of metal:

- Transport modes: inbound metal comes through modes of transport allowing high capacity (i.e. break-bulk/containers for ports delivery point or rail for inland delivery point). Outbound metal is most often shipped out by truck or by vessel. The capacity of the ports used by the LME will typically be sufficient to prevent any bottleneck in inbound metal
- Scheduling: load-out is typically scheduled out during regular business hours so that trucks can easily come and pick-up the metal. For load-in, metal can arrive at any time in the day and be stored in the yards or in the warehouse. Lotting and storage of the metal can be made by the warehouse employees at any time, including during night shifts
- Timing of operations: discussions with warehouse companies suggest that load-out is commonly performed in the morning shift, whereas load-in is performed during the afternoon shift. Although load-in and load-out require the same equipment (e.g. forklift) or the same circulating areas within a warehouse (doors, intermediate storage), these can be carried out at a different time of the day

We also note that – by allowing multiple delivery points/warehouse companies/sheds – the LME system allows some natural balances between load-in and load-out:

- For a warehouse operator which owns multiple warehouses in a given delivery point, it is not uncommon that for a given day, load-out only concerns a limited number of sheds: as a result, it can load-in in the sheds which are not busy with loading-out
- A metal owner, wanting to load-in metal in a specific delivery point, can choose to load-in its metal at a warehouse company which is not busy with high load-out volumes
- In addition, in some geographies where the LME network is dense, the metal owner can also choose to load-in his metal in a delivery point close to the one it had initially planned

Although the two latter cases may mean that the metal owner has less choice, they still aid the capacity of the LME to play its role of market of last resort.

Finally, the envisioned Linked Load-in Load-out (LILO) rule would link the minimum load-out requirements with the volume of metal loaded-in (where the queue is above 50 days and load-in volumes were above load-out volumes during the previous calculation period). With this new rule, a high volume of metal loaded-in eventually translates into an additional load-out, which incentivizes the warehouse to only accept load-in volumes that generate manageable additional load-out requirements.

Suggested change

We do not recommend any change related to this point based on the logistics review.

4.3. Load-out definition

Under the current set of rules, there is no official definition of a load-out, although a delivery to a consignee outside the premise of the warehouse company is the usual practice.

We have reviewed load-out situations described as problematic by market participants and made suggestions or otherwise to the load-out definition. However, this question sometimes goes beyond the bound of the Logistics Review, and might require further work on the part of the LME.

4.3.1. Circular load-out/load-in

Issues raised

“Circular” load-out/load-in can occur when a warrant is cancelled, the metal is loaded-out and is then loaded-in at the same warehouse company in the same good delivery point.

Circular load-out/load-ins can use load-out slots and therefore feed queues.

Findings

Although there are some cases where a load-out is immediately followed by a load-in due to market conditions (e.g. sudden reversal of prices), these behaviours would tend not to serve consumer or trading purposes and could help sustain queues.

Suggested change

We suggest adapting the LME Policy Regarding the Approval of Warehouses such that, to count as a load-out, a load-out should be accompanied by a bill of lading (or equivalent for other transport modes, e.g. for road shipping, CMR in Europe or waybill in the US).

4.3.2. Warrants cancelled but not scheduled for load-out

Issues raised

Currently, warrants that are cancelled are not always scheduled for load-out.

The LME does not put any obligation on the metal owner to request a slot when the warrant is cancelled. Warehouse companies also usually require the metal owner’s instructions (and in some cases FoT and rent payment) before allocating them a slot (i.e. it is not an automatic process).

When cancelled metal is then scheduled for load-out, there is the risk that a queue can be created instantly (since there is no restriction on the amount of metal scheduled for load-out once the warrant is cancelled).

Findings

There is little difference in this scenario to the risk of a metal owner cancelling a large number of warrants and scheduling them for delivery right away. A metal owner can cancel and schedule for delivery as much metal as it wants, even in large volumes (e.g. winding down of a large position). Since there is no restriction in the number of warrants that can be cancelled, the described situation could equally happen in the normal course of activity.

Suggested changes

We do not suggest any change in the logistics rules related to this point as part of the scope of this review.

4.3.3. Transfer of metal between warehouse companies within the same good delivery point or across good delivery points

Issues raised

Some metal flows are constituted by flows from warehouse companies to other warehouse companies, instead of going to a consumption point. This can occur within the same good delivery point or across good delivery points.

Findings

As long as these flows are triggered by a decision and mutual agreement of metal owners, there is no compelling reason to prohibit them. In addition, the envisioned LIFO rule might reduce the attractiveness of such flows for warehouse companies with queues.

Suggested change

We do not suggest any change in the logistics rules related to this point as part of the scope of this review.

4.3.4. Warrants blocked in rent deals

Issues raised

Some warehouse companies are storing significant volume of metal which is not available for load-out in the LME system because attractive rents are proposed to the metal owner if it leaves its metal in the warehouse for a certain period of time.

Findings

From a pure logistics perspective, this possibility does not seem to have significant harmful effects.

Suggested changes

We do not suggest any change in the logistics rules related to this point as part of the scope of this review.

4.3.5. Metal concentration by metal owners

Issues raised

Some metal owners, whether producers or traders, might choose to concentrate their metal in a limited number of places. The risk is that this may create queues when large numbers of warrants are released and start being loaded-out by new owners.

Findings

Decisions on the use of good delivery points by metal owners are beyond the scope of this logistics review.

However, a network with well-connected good delivery points reduces the effects of accumulation in specific delivery points, by ensuring that metal is accessible from anywhere in the world in a convenient and affordable way.

Suggested changes

We do not suggest any change in the logistics rules related to this point as part of the scope of this review.

4.3.6. Metal attraction through incentives

Issues raised

As explained in the LME's previous report ("LME Warehousing Consultation"), incentive payments have been a central element of the warehousing system. As a result, some warehouse companies have been able to attract more metal in some specific delivery points.

Findings

Incentives payments are out of bounds for this logistics review.

A network with well-connected good delivery points should reduce the effects of accumulation of metal in specific delivery points, by ensuring that metal is accessible from anywhere in the world in a convenient and affordable way.

Suggested changes

We do not suggest any change in the logistics rules related to this point as part of the scope of this review.

4.3.7. Containers ready for departure

Issues raised

In certain cases, metal can be loaded into a container, which is then sealed (i.e. ready for departure from an administrative and custom perspective) but not leave the premises for several days. If the load-out is only counted when the container leaves the premises, the warehouse should have a day during which it records a lower load-out rate, and potentially less than the minimum requirement.

Findings

A sealed container is ready for departure and – in normal circumstances – cannot be re-opened by the warehouse company. As such, it could be counted as a load-out on the day that it is sealed.

However, if the number of sealed containers in the yards increases significantly, it might create some bottleneck effects (due to yard over-occupancy or traffic of trucks if all the containers are picked up on the same day) and ultimately disturb operations on the following days. As such, the warehouse companies cannot be entitled to use the excuse of a high number of sealed containers to justify lower load-out rates on following days.

Suggested changes

Sealed containers in the yards could be counted as a load-out by the warehouse companies on the day they are sealed. However, any subsequent movement of the containers should have no impact on any future delivery out.

4.3.8. Off-LME storage in the same facility

Issues raised

Some warehouse companies have mentioned that – after loading-out metal – they should be allowed to store it off-LME in the same facility for later delivery instead of delivering it to another place right away. The associated benefits mentioned may include:

- A cheaper service for customers with metal in the facility
- Allowing owners to ship metal at a date later than initially planned
- Staging metal in case of missed slots by the metal owner

Findings

The expected benefits for metal owners are not proven:

- Regarding cheaper service: The warehouse company usually has the option to offer a cheaper rent at any time (including after warrant cancellation). In addition, due to the current structure of the rent charges (of which a large part is reported to be constituted of incentive payments), warehouse companies have the option to decrease their rents, even without considering outside storage
- Regarding later slots: There is no rule from the LME that prohibits warehouse companies from postponing delivery slots. As described in section 4.5, warehouse companies are entitled to charge for this extra service when it is requested by the metal owner
- Regarding missed slots: The current volumes suggest that missed slots are very low, and warehouse companies are usually able to catch up in the following days. In addition, a clearer definition of responsibility sharing, including the obligations of metal owners, could help reduce the risk of missed slots increasing in the future

In addition, allowing the storing of metal off-LME would make it difficult for the LME to track metal in order to prevent it being put on warrant again at the same warehouse/good delivery point.

Suggested changes

Given the reasons described above, we do not suggest implementing this proposition as part of this logistics review.

4.4. Slot characteristics

4.4.1. *Slot scheduling workflow*

Issues raised

Slot scheduling is carried out in a heterogeneous way across warehouse companies and good delivery points. Metal owners therefore need to complete different documents, have different types and phasing of interactions in the load-out process. This can create additional complexity and requires more time and effort.

Within the workflow, an issue has also been raised around how and when rent and load-out rates should be charged when metal is in a queue.

Findings

From a logistics perspective, a common load-out process would simplify operations and help metal owners. All elements required to organise the shipment would be known in advance providing greater readiness and the potential to optimise operations. However, given the different operating environments, duty/tax rules, legal

structures and legacy approaches, shifting to a single process may be a complex undertaking and flexibility for local circumstances may nonetheless still be required.

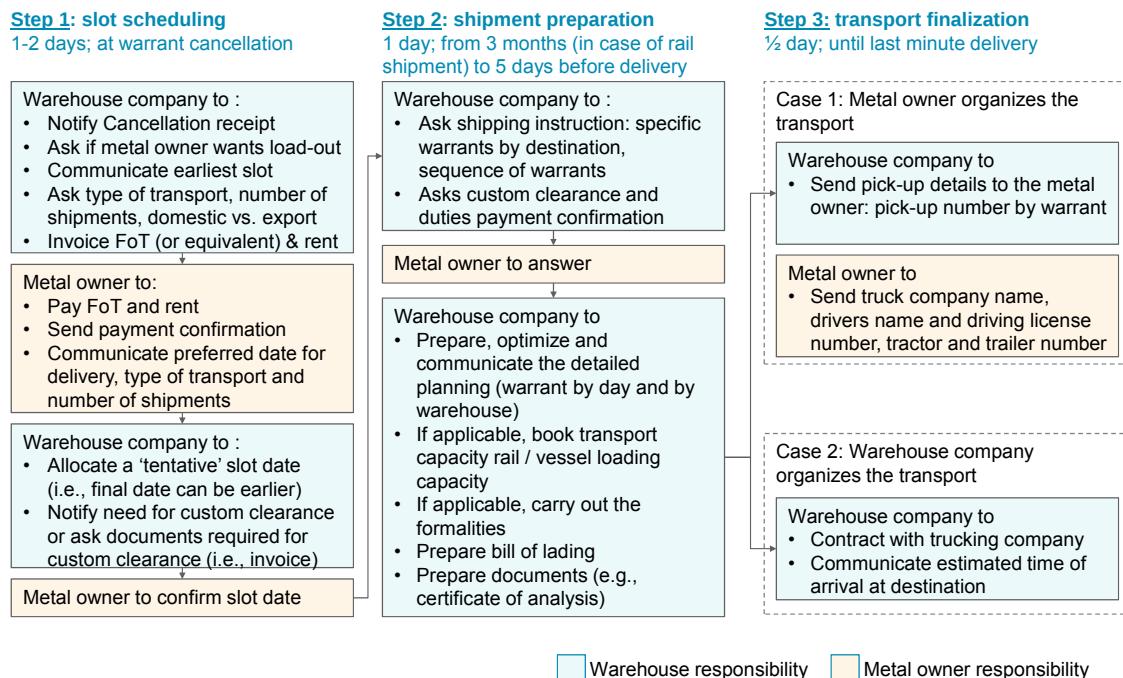
In terms of charges for load-out and rent, we would consider the following practice to be a balance between the interests of the warehouse company and metal owner:

- That no more than the load-out rate charged by the warehouse operator at the time the warrant is surrendered (i.e. FoT or equivalent) is charged for delivery, regardless of whether or not the warehouse operator has subsequently increased his rates prior to the actual load-out
- That the load-out rates (i.e. FoT or equivalent) are charged upfront, as a condition of slot allocation

Suggested changes

We suggest that warehouse companies are each asked to publish on their website their slot scheduling workflow (scheduling of the slot, organization of the shipment and metal delivery itself).

To lay out how the process is organised, we have provided a high-level framework, below, as an example of what could be published by the warehouse companies. This incorporates the setting and payment of load-out rates at the point of cancellation.



4.4.2. *Management of dynamic queues (subject to the implementation of the envisioned LILO rule)*

At the time of writing, the envisioned LILO rule has not been implemented; this section is only relevant if this LILO rule (or similar) is ever implemented in the future.

Issues raised

In the event of the implementation of the envisioned LILO rule, affected warehouses under the new LILO rule (i.e. queues above 50 days and load-in above load-out volumes during the previous calculation period) should see an increase in their minimum load-out requirements assuming they continue to load-in metal. Since load-out planning is done in advance, it means that they will have to dynamically add and fill new load-out slots to their original plan.

There are different ways of filling these slots: moving forward the whole queue, moving forward only a part of the queue (i.e. after a certain time in the queue) or moving forward only the end of the queue (until all the slots are filled). In particular, the last two options reduce the administrative burden for warehouses (calling metal owners, rewriting bills of lading, rescheduling transport when arranged for the metal owner by the warehouse company, etc.).

Findings

At the core of the load-out logic is the obligation of loading out metal in the order of slot scheduling. This principle promotes fairness of treatment for all metal owners. The new LILO rule should not challenge this principle. Therefore, a warehouse company should offer additional load-out slots to metal owners based on their position in the queue.

However, moving forward the whole queue will require significant administrative operations (need to call all metal owners, re-issue bills of lading). Whilst it increases workload, we see it as part of the adjustment required on the part of the warehouse companies.

It should be noted that capacity (mainly loading platforms) for loading railcars might be already used. However, warehouse companies should treat all modes equally and might need to increase rail loading platform capacity, increase the number of shifts per day or truck the metal to another rail spur.

Suggested changes

In the event of the implementation of the envisioned LILO rules, we suggest setting as a standard rule the obligation to offer additional slots created by the “additional minimum requirements” of the new LILO rule to all metal owners based on their position in the queue.

4.4.3. Slot time window

Issues raised

The slot time window offered to metal owners is the decision of each warehouse company. Therefore, it has led to the question of whether the warehouse companies could offer slots at some times that would be difficult to meet for metal owners.

Findings

Discussions with different market participants suggest that warehouse companies usually use the morning shift (i.e. around 7:00 to 15:00) for load-out. In the afternoon, either there is no activity, or the shift is used for preparing the load-out for the next day. However, slot time windows also depend on various factors which vary due to geography (e.g. daylight) or market characteristics (e.g. US over-the-road drivers usually take metal as a back-haul on their way back from ports and cannot take delivery of the metal too early nor too late, to avoid sleeping in the city of collection).

As a result of the various factors effecting slot windows, it seems difficult to issue general guidance on this aspect. However, in case of abuse observed/reported (i.e. only very early slots or very late slots proposed), the LME might recommend specific practices:

- Separate load-out preparation (afternoon shift of the previous day) and delivery (morning shift). This would reduce the movement of forklifts in warehouses
- Prioritize over-the-road drivers for slots in the middle of the day and incentivize local delivery (for other warehouses in the same good delivery point) to take place in early or late slots
- If not implemented, set up a time window (from 1 to 3 hours) when a truck is entitled to show up. This would also apply for trucks with load-in volumes

Suggested changes

We do not recommend any change related to this point. The LME will have to monitor and act on a case by case basis depending on the complaints that are addressed to the Physical Operations team.

In case of an abnormally high number of missed slots that can be attributable to the behaviour of the warehouse company, we suggest that this volume should not be counted as loaded-out: the warehouse company should reschedule the delivery at the earliest possible time.

4.4.4. Responsibility sharing

Issues raised

The load-out of metal is an operation involving both the warehouse company and the metal owner. The efficiency of this process depends on both the warehouse company and the metal owners.

Findings

The Warehousing Agreement is an agreement between the LME and each warehouse company; as such, no obligations are placed on the metal owner in the agreement. Nevertheless, it may be appropriate to issue some recommendations and guidance in relation to best practice for metal owners to increase logistics efficiency.

Observations from current practices (including as suggested by the illustrative process for slot scheduling – section 4.4.1) provide examples of best practices for metal owners. This could include the following (note, delays are referred to for warehouses with queues only – warehouses without queues might be able to perform all these operations in one or two days)

- At cancellation, provide all the documents required to be allocated a delivery slot:
 - Communicate preferred date of delivery, type of transport and number of shipments
 - Payment confirmation (FoT or equivalent and rent)
- At least five days before the shipment (and more in the case of rail shipping, which might require the warehouse company to book railcars with more advance notice)
 - Provide detailed shipping instructions: specific warrants by destination, sequence of warrants
 - If necessary, carry out the formalities (e.g. custom clearance, VAT payment, etc.) or ask the warehouse company to do them on its behalf

In the case of a truck arranged by the metal owner:

- At least before 12:00 on the previous day
 - Send truck company name, driver's name and driving license number, tractor and trailer number
 - If requested by the warehouse company, indicate the delivery time window for picking up the metal (typically a 3-hour time window)
- At the arrival of the truck at the warehouse
 - The driver should notify the warehouse on the arrival of the truck
 - The driver's information should be consistent with the information communicated in advance
- At reception of metal, the driver should check the lot numbers and sign the CMR document

Suggested changes

We recommend that warehouse companies formalise and publish on their website their expectations towards the metal owners. To do so, they could publish a process that – in particular – describes the information and documents required from the metal owners at the different stages of the load-out process. Warehouse companies could potentially refer to these obligations in case of dispute.

4.5. Logistics rate structure

Issues raised

Two main issues were raised in relation to logistics rates (note their absolute level is not in the scope of the Logistics Review):

- Types of charges differing across warehouse companies and delivery points
- Low transparency on the level of charges (i.e. the metal owner might only discover the full charges after having bought the metal)

An additional element of complexity is that there is no standard definition of the charges across the industry (e.g. different definitions of FoT).

Findings

Although the rent and FoT are supposed to be the reference charges for the LME, in practice there are other charges on top of this and transparency on charges for metals owners could be improved.

Two approaches have been identified to introduce greater clarity into the logistics charging structure:

- First, warehouse companies could publish all of their rates, to increase transparency for metal owners
- Second, a consistent structure for logistics rates could be defined to facilitate more direct comparability between warehouses and a more transparent market

Suggested changes

Warehouse owners could look to increase transparency around rates as a best practice (noting the LME may not be able to mandate this). In addition to the charges (rent and FoT) submitted to the LME currently, additional rates could be published on the warehouse companies' websites including the following:

- FoR (Free on rail): loading of metal at the rail spur on a closed railcar and haulage as appropriate
- FaS (Free alongside) for break-bulk: loading of metal and delivery alongside the vessel on the quay side

- FCY (Free in container yard) for containers: stuffing, strapping, and lashing of a container, and delivery at the container yard
- Re-warranting
- Slot rescheduling at the request of the metal owner

Note that the responsibility for the metal is transferred from the warehouse company to the transport company after it has been delivered according to the FoT, FoR, FaS or FCY definition.

The payment and levels of charges would obviously remain a matter between the warehouse company and the metal owners.

5. Approval process

This section deals with the main aspects of the approval process for new delivery points, warehouse companies or sheds:

- Approval process workflow
- Roles of the LME committees
- Documents required for a delivery point application
- Potential external due diligence for a delivery point application

5.1. Approval process workflows

Issues raised

Several issues have been raised with the current approval process for good delivery points:

- The process is not clearly formalised
- The process could benefit from improved transparency
- The role of the committees could be clarified

Findings

A revised approval process should help create a fair and transparent process while providing flexibility for the LME to maintain an efficient network:

- The application process needs to maintain a certain degree of formality and be consistent and fair for all market participants
- Due to local peculiarities, the process should leave room for individual assessment, so not every detail of requirements for applicants can be formalized in advance
- With their industry knowledge, the LME committees can be leveraged on specific topics in the application process, while the final decision should remain with the LME
- Different types of investigation need to be carried out by the LME: technical assessment based on the criteria mentioned in the Policy and Guidelines for Good Delivery Points and strategic assessment based on fit with the LME strategy

The approval process can be split into different steps, where a specific type of investigation will be carried out at each step. In addition to structuring the process, these steps would allow the LME to report to the warehousing committee the status of the various types of applications.

In particular, for a good delivery point application, the LME could report the identity of the applicant, to allow warehouse companies to start assessing potential operations in this delivery point.

Suggested changes

We suggest implementing a four-stage gated process for the approval of good delivery points, with the following activities to be carried out:

Gate 1: Application reception and check of basic criteria by the LME

- Check if the required documents and the application contents have all been submitted
- The fit of the applicant to the strategic development of the LME network is assessed (e.g. geographical focus, metal focus)
- Check of basic criteria listed in the policy and guidelines for applications, approval to proceed to assessment stage

Gate 2: Technical assessment by the LME

- Technical assessment of application
- External due diligence by 3rd party approved by the LME at the cost of the applicant (e.g. assessment of the legal and tax environments) as required

Gate 3: LME committee input

- Input of the relevant committees to the application is requested
- The committee input is acknowledged as expert input and is not binding on the ultimate decision to approve or deny the application

Gate 4: Final assessment by the LME

- It is possible for the LME to refuse applications at this stage, provided that the LME acts fairly, reasonably and proportionately in doing so

Throughout this process, the LME will report to the warehousing committee on the application status of good delivery points that have passed each gate.

5.2. Involvement of committees

Issues raised

LME committees play an advisory role when deciding about new delivery points. The main issue which arises from this is that committees have deep but relatively narrow insight, focused on production/consumption of metal (relevant metal committee) and on warehousing/logistics topics (warehousing committee).

Findings

Two types of committees seem to have a significantly relevant input to provide about a new delivery point:

- Warehousing committee about the logistics topics (infrastructure availabilities, connections, etc.)
- Metal committee(s) about the production/consumption in a given area

Suggested changes

We suggest formalising the role of the committees in the revised approval process, where their input is gathered and analysed in Gate 3. The input is acknowledged as expert input and is not binding on the ultimate decision to approve or deny the application. The two expected types of input would be:

- Areas of net consumption for the relevant metal committees
- Logistics connectivity and infrastructure for the warehousing committee

5.3. Required documents for good delivery point applications

Issues raised

There is no clear list of documents which the LME needs in order to process applications. That creates a lack of clarity on the applicant side and – in some cases – may lead to a lack of relevant information for the LME when reviewing applications (applicants might justify not providing certain information on the ground that this information is not explicitly included in the list of requirements).

Findings

It would be helpful to provide greater clarification of the documents required for the approval process. This would:

- Facilitate the collection of basic and useful data
- Facilitate the collection of homogenous information
- Promote a consistent approach, and equality in the treatment of applications
- Reduce time and effort for the Physical Operations team

Suggested changes

For the aspects reviewed, we believe at least the following information and documents should be required for an applicant to pass through Gate 1:

- Statistical evidence of throughput tonnages of metals by means of contact with the metals trade, forwarding agents, fabricators, producers, warehouse companies, traders, etc.
 - Statistics on production and consumption of metal as well as imports and exports for the relevant area
 - Major points of production and consumption and associated volumes in the relevant area
 - Trade flows serviced (i.e. O/Ds served) with associated services
- Logistics connections
 - Maritime: number of short and deep sea connections, number of shipping lines calling at the port, frequency of services
 - Rail: frequency of service and time to access major consumption points
 - If applicable, barge: frequency of services and time to access major consumption points
- Detail/data of the logistics support services of the delivery point
 - Container terminals, break-bulk terminals (including crane infrastructure)
 - Number, length and depth of berths (including draft for accessing the berth – e.g. river draft)
 - Number and capacity of rail terminals
- Approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in the relevant metals
- Logistics infrastructure
 - Estimation of number of available sheds that warehousing companies can use for LME storage operations
 - Detailed maps/plans showing the outline of the area and location, evidencing logistics connections and locations of short/long term warehouse facilities
 - Where relevant, a description of the applicant's existing operations and services in the delivery point including, for example, terminal operations, warehouse ownership, logistics operations etc. together with a detailed assessment of how its operation of an LME warehouse in addition, might be expected to affect market conditions, including the possible negative and positive effects on competition

- Work labour practices
 - Working/overtime hours of the employees operating the terminals, customs clearance and logistics operations within the port areas
 - Labour costs
 - Average time to load a truck, a railcar, a container, or a break-bulk shipment

This list can be refined by the LME based on its prior experience with applications. In addition, the LME should retain the right to ask for specific documents due to local specificities for the delivery points/company to be reviewed, or for any other reason, acting reasonably.

5.4. Required external due diligence for good delivery point applications

Issues raised

Some of the analysis required to correctly assess the relevancy of a good delivery point application is very technical, and neither the applicant nor the LME may have the required technical expertise. As a result, third-party assessment may be required to verify specific points, such as tax and legal issues.

At the moment, the principle and the expected content of these due diligence steps are not formalised in the Policy and Guidelines for Good Delivery Points.

Findings

Based on the LME's experience, a description of which issues would likely require third-party assessment could be developed in advance. Such due diligence should become part of the normal review process, except in some cases (e.g. application from a delivery point in a country where the LME already has a good delivery point).

Suggested change

We suggest formalising this in the Policy and Guidelines for Good Delivery Points by including certain due diligence steps, which shall be taken at the expense of the applicant, and where necessary should be conducted by third party specialists that are considered suitable by the LME.

The key information to be collected through the external diligences would be set by the LME and could include for example:

- Metal ownership: that warrants can be the document of ownership and metal still belongs to the owner in the case of warehouse bankruptcy
- Companies: that warehouses may be owned by foreign companies, operations in foreign currency are allowed and there is no undue delay of payments

- Taxes: that the tax and duty free environment is suitable for LME business (across transactions, storage, ancillary services, stevedoring & handling goods, delivery point duties, time constraint of storage, seller/buyer obligation to have a tax registration, metal bound for export or moving between different warehouses/good delivery points having no tax liabilities)
- Other: that there is no conflict between LME requirements and insurance laws that preclude warehouse companies from obtaining the necessary coverage under the LME Warehouse Agreement, no requirement to keep lists of owners, no embargo other than UN against origin countries, no export license requirements, domestic and foreign goods can be stored in the same warehouse environment, or any other external diligences that the LME may reasonably require

6. Conclusion

Based on this logistics review, we suggest the following changes to the Policy and Guidelines for Good Delivery Points and LME Policy Regarding the Approval of Warehouses be considered and consulted upon. The potential changes have been incorporated into a mark-up of these documents that were passed to the LME.

For the avoidance of any doubt, please refer to the full description of the suggested changes in the main text.

Approval of good delivery point

- Definition of “area of net consumption”: clarification of the definition based on a consistent negative trade balance at the level of a sub-region in the case of large countries, country or aggregation of small countries with an integrated logistics surface network over a two-year period
- Logistically sound conduit: clarification of the definition with the following: the good delivery point should be on the natural route for the consumption centre and well connected to other regions of the world through deep-sea connections
- Berth draft: requirements should be increased from 8 metres to 11 metres for new delivery points
- Rail requirement for good delivery points: required in Germany, Belgium, Netherlands, Sweden and the United States; conduct a case-by-case analysis for an application for a delivery point in a new country
- Inland delivery points: clarification of requirements, including being positioned on a major land trade lane for the metal, connected to an export port in the region, having both rail and barge connections, and having a minimum combined capacity of 4,500t/day for barging and rail
- Having more than one warehouse company is the preferred option of the LME; a newly listed delivery point should allow more than one warehouse company to operate
- Good delivery point boundaries: could be re-assessed only in exceptional circumstances and where there is a major shortage of storage capacity. The existing good delivery point boundaries would be considered as the starting point, with small increments used to determine boundary expansion. The enquirer (e.g. warehouse company, port authority, etc.) would need to demonstrate the shortage of storage capacity before any review by the LME

Approval of warehouse companies

- For ocean port delivery points, rail spur no longer required at the shed level; but available (provided there is enough spare capacity) at the good delivery point level (provided that the LME has decided that rail is a requirement at this delivery point); warehouse companies are obligated to bring back metal to the spur (but loading the metal in the railcar would be an optional service)

- Warehouse companies listed for the first time need previous systems and metal storage experience among their key staff, and should be on probation for two years
- The LME would not approve warehouse providers that control the operation of any infrastructure or the provision of any service in the delivery point that is believed to be critical to other warehouse companies in the delivery point concerned, and where the LME has a genuine concern that the applicant's operation of an LME warehouse could be detrimental to competition

Operations

- Load-out definition: to count as a load-out, a load-out should be accompanied by a bill of lading (or equivalent for other transport modes)
- Slot scheduling: standard process to be published by the warehouse companies
- Load-out fees: to be paid up front at cancellation and to be no more than the warehouse operator's rate at the date of cancellation
- Additional minimum load-out requirement in case of implementation of the new LIFO rules: obligation for the warehouse company to move forward the whole queue
- Recommendation that warehouse companies publish on their website their main logistics fees: rent, Free on Truck (FoT), Free on Rail (FoR) for rail connected or non-connected sheds, Free alongside (FaS) and Free in Container Yard (FCY), and charges related to additional requests from metal owners

Approval process

- Approval process: Four stage, gated process: (1) reception and check for completeness of applications, (2) technical assessment based on Policy and Guidelines for Good Delivery Points and LME Policy Regarding the Approval of Warehouses criteria, (3) LME committee input (not binding on the LME), and (4) strategic assessment by the LME and final decision
- LME committee input focused on area of net consumption for metal committees and logistics infrastructure and connectivity for the warehousing committee. The input is acknowledged as expert input and is not binding on the ultimate decision to approve or deny the application
- Required documents for applying: set up of a list of minimum documents to be provided by applicants
- The LME can request external due diligence (e.g. on legal and tax issues) if needed

LME POLICY ~~REGARDING~~ON THE APPROVAL AND OPERATION OF
WAREHOUSES,
REVISED ~~1 APRIL 2014~~[]

A) Warehouses

1. ~~A) Applicants to be a~~ Warehouse ~~companies~~ Warehouse companies will be considered for approval and listing in an existing or new ~~location~~ Delivery Point subject to completion of a ~~warehouse agreement~~ Warehouse Agreement application form supported by evidence of insurance, capital adequacy and other documents as detailed by the LME from time to time. ~~Inspection of~~ The LME will inspect premises and operations offered for warehousing to the LME ~~will take place~~ prior to any listing to ensure they suit the logistical nature of the ~~location~~ Location as required by the LME. The LME will state its needs in this respect when sending the applicant the application form. The LME has discretion to accept or decline an application for approval to be a Warehouse or attach specific conditions to approval to be a Warehouse.

~~B) Warehouses~~

- ~~1. Road connection to major highways is mandatory.~~
2. ~~Rail loading facilities adjacent to the warehouses will be required if, in the opinion of the LME, this service is routinely required by the metals trade. Warehouses without direct rail connections in such locations may be considered for listing if it can be demonstrated that adequate shuttle services to the rail head are provided by the warehouse company at its own cost and risk.~~ A Warehouse shall have staff with sufficient experience in metal storage, logistics and systems to ensure that the Warehouse is able to comply with all applicable requirements on an ongoing basis. The LME may, in its reasonable discretion, reject an application from an applicant which is unable to demonstrate compliance with this requirement.
3. Applicants for approval shall be required to demonstrate that they do not:
 - (a) control the operation of any infrastructure or the provision of any service in the Location / Delivery Point that would be critical to any other Warehouse, or any company wishing to become a Warehouse, in the Location / Delivery Point concerned (including, without limitation, terminal operators which may operate all or most of the berths within a port; a logistics company providing all or most of the logistics services in the port (haulage and warehouse operations); or a company that owns all or most of the real estate/warehouses of the Location); or

~~3. Water loading facilities adjacent to the warehouse or (b) otherwise will be treated~~exercise control in the ~~same way as rail.~~Location / Delivery Point;

such that the LME would have a reasonable concern that the applicant's operation of a Warehouse could be detrimental to competition.

4. A Warehouse must comply at all times without limitation with: this policy and any other notices or policies issued by the LME, from time to time which apply to Warehouses; and the Warehouse Agreement (together the "Warehouse Requirements").

B) Transportation

Transport links

1. All Authorised Warehouses must have adequate transport links and be situated in close proximity to major highways.

2. With the exception of inland Delivery Points, all Authorised Warehouses must have adequate transport links and be situated in close proximity to water loading facilities.

3. All Authorised Warehouses located in Germany, Belgium, Netherlands, Sweden and the US must have adequate transport links and be situated in close proximity to railheads.

4. All Authorised Warehouses in inland Delivery Points must be directly connected to a rail network.

The LME, respecting such confidentiality as it deems necessary and appropriate, will undertake its own enquiries, as it sees fit, from its members/trade entities etc. to evaluate any applications prior to submission to EXCOM for consideration.

C) Common standards of working practices and facilities for ~~warehouses~~Warehouses

1. For each 2500~~m~~² sq. metres of space (not including open storage compounds for steel) there must be access by means of an operational door for vehicle loading/unloading, with a minimum of 2 doors per ~~warehouse.~~Authorised Warehouse.

2. ~~2.~~ The minimum daily delivery tonnage must be in accordance with the tables below. Where the delivery requests exceed the minimum daily delivery tonnage for the capacity on the table below, the LME will regard the standard as applying over the number of days necessary to complete the deliveries, as per the table (e.g. if the requests for the delivery of 2000 tonnes apply to a ~~warehouse's~~ locationDP Warehouse's capacity of 2500 sq. metres, the standard would be to

deliver in 3 days with no reference to the performance on any one of those days). The LME would, however, expect the ~~warehouse company~~DP Warehouse to act reasonably when allocating the tonnage delivered out in each of those days.

warehouse company <u>DP Warehouse</u> 's authorised space per location , in m ² <u>sq. metres</u> (excluding steel storage facilities)	minimum <u>Minimum</u> daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all ~~companies~~DP Warehouses who are storing up to 300,000 ~~metric~~ tonnes of metal. For ~~companies~~DP Warehouses who are storing 300,000 ~~metric~~ tonnes and above, the following table is applicable.

warehouse company <u>DP Warehouse</u> 's tonnage stored per location (excluding steel)	minimum <u>Minimum</u> daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

NB: The daily delivery tonnage is for deliveries out only and does not include deliveries in.

3. ~~3.~~ Where a ~~warehouse company~~DP Warehouse's tonnage stored increases beyond any of the 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the ~~warehouse company~~Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a ~~warehouse company~~DP Warehouse's tonnage stored falls beneath any of the 300,000, 600,000 or 900,000 tonnes thresholds, a ~~warehouse company~~Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.
4. In addition to the daily rates stipulated above and below, a ~~warehouse company in any location~~DP Warehouse who satisfies the following conditions:-

~~(a) (a)~~ the ~~warehouse company~~ DP Warehouse has scheduled delivery out¹ commitments of 30,000 ~~metric~~ tonnes or more; and

~~(b) (b)~~ a minimum of 30,000 ~~metric~~ tonnes of those scheduled commitments are for one metal (~~the "dominant metal"~~); being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");

shall be required to deliver out in that Delivery Point a minimum of 500 ~~metric~~ tonnes per day ~~in that location of metals~~ of a metal other than the ~~dominant metal~~ Daily Dominant Metal, provided that such deliveries are requested.

5. In addition to the daily ~~rates stipulated above and below, warehouse companies delivering out the minimum rates stipulated above and below will be required to deliver out an additional, combined tonnage of tin or nickel, or a combination of~~ delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:

(a) Tin: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of tin, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).

(b) Nickel: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of nickel, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).

~~both metals, in order to ensure that at least 60 tonnes of these metals is being delivered out each day.~~ (c) Metal warranted pursuant to the LME's specifications for the aluminium alloy contract and the North American Special Aluminium Alloy Contract ("NASAAC") (together "Aluminium Alloys"): DP Warehouses licensed to warrant Aluminium Alloys delivering out the minimum rates stipulated in this policy will be required to deliver out an additional daily total of 500 tonnes of Aluminium Alloys, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).

¹ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.

For the avoidance of doubt, the extra ~~60 tonnes~~ metal to be delivered out under this paragraph would only be required to be delivered out if the ~~warehouse company~~ DP Warehouse had reached its minimum daily load ~~out rate (whether or not the requirement in paragraph 4 above has been triggered) and not delivered-out rate without delivering~~ out 60 tonnes ~~per day~~ of tin and/or, 60 tonnes of nickel, and 500 tonnes of Aluminium Alloys, as part of these deliveries.

~~6.6.~~ The daily delivery out rate does not include deliveries out for cobalt and ~~roasted molybdenum concentrate (RMC)~~ RMC. Any deliveries out for either of these metals must be in addition to the rates stipulated in the above table.

~~7.7.~~ The daily delivery out rate does not include deliveries out for steel billet. For each ~~location~~ Delivery Point in which it is licensed to store steel billet, a ~~warehouse company~~ DP Warehouse must ~~load~~ deliver out in accordance with the minimum requirements stipulated in the tables below, provided demand is present.

warehouse company <u>DP Warehouse's</u> authorised space per location, in m² <u>in sq. metres</u> (steel storage facilities only)	minimum <u>Minimum</u> daily delivery tonnage for steel
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all ~~companies~~ DP Warehouses who are storing up to 300,000 ~~metric~~ tonnes of steel. For ~~companies~~ DP Warehouses who are storing 300,000 ~~metric~~ tonnes and above, the following table is applicable:

warehouse company <u>DP Warehouse's</u> tonnage stored per location (steel only)	minimum <u>Minimum</u> daily delivery tonnage for steel
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

~~8. The LME recognises that it may not be possible to achieve exactly the same delivery rates if delivery into containers, vans or railcars is required.~~

~~n~~

~~assessing a warehouse company's performance, the circumstances will be taken into account.~~

8. In addition to the daily rates stipulated above, an "Affected DP Warehouse" (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E

below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).

9. To qualify as a load-out:

(a) The load-out must be accompanied by a bill of lading or other document issued by a carrier to the Warehouse, no matter the form of transportation, listing and acknowledging receipt of goods for transport; and

(b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group.

Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance of doubt, a high volume of sealed containers should have no impact on the load-out requirements.

~~9.~~ 10. Once all formalities permitting delivery, including payment of applicable delivery out charges (including without limitation Free on Truck charges ("FOT") or equivalent for other modes of transport), have been completed, the warehouseWarehouse shall prioritise allendeavour to process requests for deliveries out on the basis of 48 hours' notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise. The FOT charges imposed by a Warehouse shall be the rates published at the date of cancellation not at the date of delivery.

~~10. In addition to their rent and FOT charges, warehouse companies are also required to supply the LME with a comprehensive set of charges for delivery out of warranted metal and will undertake to immediately advise the LME of any changes thereto. Warehouse companies are also required to submit to the LME compulsory port tariffs for the import and export of metal.~~

11. Warehouses shall publish (on their website or other appropriate method) a clear process for scheduling and handling delivery slots (including required documents, timing of operations, etc.).

12. Warehouses are required to supply the LME with their current rent and FOT charges. In addition, Warehouses are also required to publish on their website in an easily accessible manner the current level of all fees that they charge to metal owners. Warehouses may not charge fees that exceed the levels published on their website, and may not impose any other compulsory charges on metal owners other than those so published.

~~11. There~~13. With the exception of inland Delivery Points, there should be no charges above the FOT for returning ~~the~~ metal to the ~~warehouse companies~~Warehouse's approved and nominated loading berths ~~within the location where the LME discerns a need for such transportation~~(as advised to the LME in schedule B of the warehouse application); the unloading of such metal from the truck being for the receiver's account.

~~12. Similarly there~~14. There should be no charges above the FOT for returning metal to the nearest railhead ~~where the LME discerns a need for such transportation~~in Delivery Points situated in the countries referred to in section B3 above (as advised to the LME in schedule B of the warehouse application); the loading of such metal onto a railcar being for the receiver's account.

~~13. Warehouse Companies~~15. Warehouses are reminded that, in general, the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements. However, ~~metals~~metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection. In particular, in the event that no metal owner wishes to avail themselves of a delivery slot offered on a reasonable basis,~~a warehouse operator~~ and at a reasonable time of day, a Warehouse will be permitted to count the tonnage which would have been delivered in that slot towards delivery out if it can verify that the empty slot has been offered to all metal owners in the Queue.

~~With the exception of the FOT charge and port tariffs for the export of metal the warehouse company may not impose any compulsory additional charges when delivering metal out.~~

~~D) Continued compliance with the LME policy for warehouses~~

D) The Premium Contract Rule

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts

designated by the LME as “Premium Contracts” (“Premium Warrants”). The specification of Premium Contracts is made by the LME pursuant to the requirements in the “Premium Contract Regulations” set out in the LME Rulebook. Warrants not so endorsed will be referred to as “Standard Warrants”. The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.

2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:

- (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
- (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a list of all DP Warehouses which have opted-in to the premium warrant regime; and
- (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.

3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:

- (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
- (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to

identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply

4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.
5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
 - (a) 1,000 tonnes per day; and
 - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.

For the avoidance of doubt, load-out obligations in respect of Premium Warrants are in addition to load-out obligations for Standard Warrants. In particular, the basis on which minimum load-out rates for Standard Warrants are calculated takes into account total stored tonnage in the DP Warehouse, related to both Standard Warrants and Premium Warrants.

7. Once it has opted into the Premium Contract Rule, a DP Warehouse may only opt-out if its stock of Premium Warrants is zero.
8. Premium Warrants may be converted back to Standard Warrants by agreement between the metal owner and the Warehouse. However, there shall be no obligation on Warehouses to facilitate such transfers.
9. Premium Warrants may be re-warranted by agreement between the metal owners and the Warehouse. However, there is no requirement on the Warehouse to re-warrant cancelled Premium Warrants as new Premium Warrants, and a Warehouse may reasonably offer to re-warrant a cancelled Premium Warrant as a Standard Warrant.

E) Linked Load-In and Load-Out Requirements

1. Principle

The general principle of this requirement is to link load-in and load-out for DP Warehouses with Queues of greater than 50 calendar days (the “Queue Threshold”).

2. LILO Rule Definitions

In relation to a particular DP Warehouse, a Business Day (“Business Day”) is any day on which that particular DP Warehouse is operating and subject to the current LME minimum load-out requirement.

The Preliminary Calculation Period (“Preliminary Calculation Period”) shall be the period between 1 July 2013 and 31 January 2015, inclusive.

The First Calculation Period (“First Calculation Period”) shall be the period between 1 February 2015 and 30 April 2015, inclusive.

Each subsequent Calculation Period (“Calculation Period”) shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period (“Second Calculation Period”) shall be the period between 1 May 2015 and 31 July 2015, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, (the “Preliminary Discharge Period”) which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 March 2015 and 31 May 2015, inclusive.

For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period (the “Discharge Period”). By way of example, the First Discharge Period shall be the period between 1 June 2015 and 31 August 2015, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period) (the “First Discharge Period”).

In relation to a particular DP Warehouse on any given Business Day, the Normal daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements set out in Section C of this Policy (the “Normal Daily Minimum Load-Out Rate”) as follows:

- (a) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of non-dominant metal (pursuant to paragraph 4 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load- Out Rate for the Business Day in question.
- (b) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of nickel, tin and/or Aluminium Alloys (pursuant to paragraph 5 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- (c) Load-out of cobalt and RMC (paragraph 6 of Section C above) and steel billet (paragraph 7 of Section C above) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of DP Warehouse load-out rates.

Re-warranted Metal (“Re-warranted Metal”) is metal in respect of which a Warrant has been cancelled, but has not been loaded out of the DP Warehouse (due to the presence of a Queue or other operational constraint), and in respect of which the metal owner has requested that the Warehouse issues a new Warrant (and hence reverses the original request to deliver out that metal).

3. Affected DP Warehouses

On any given Business Day, an Affected DP Warehouse is a DP Warehouse with a Queue of greater than the Queue Threshold (the “Affected DP Warehouse”). Queue lengths will continue to be measured and reported to the LME by DP Warehouses, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a DP Warehouse has scheduled deliveries pursuant to any Incremental Load-Out Requirement arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

4. Calculating the Incremental Load-Out Requirement

The Incremental Load-Out Requirement shall mean the additional amount of metal that must be discharged by a DP Warehouse during the course of the relevant Discharge Period, over and above the load-out required by the Normal Daily Minimum Load-Out Rate on each day of that Discharge Period (the “Incremental Load-Out Requirement”). The Incremental Load-Out Requirement is derived on the final day of the relevant Calculation Period, as set out more fully in this section E, paragraph 4.

(a) During the Preliminary Calculation Period, each DP Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Quantity which is the quantity set to zero at the beginning of the Preliminary Calculation Period and increased incrementally on each Business Day of the Preliminary Calculation Period by the process set out in this section E, paragraph 4(a) (the “Cumulative Incremental Load-Out Quantity”).

During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Quantity:

(i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt);

less,

(ii) the higher of (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph 2 of Section C above) shall not count towards the actual amount of metal loaded-out of the DP Warehouse.

On the final Business Day of the Preliminary Calculation Period, a DP Warehouse shall establish whether it is an Affected DP Warehouse at the end of that Business Day. If (i) the DP Warehouse is not an Affected DP Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Quantity is less than or equal to zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

- (b) During the First Calculation Period, and each subsequent Calculation Period, a DP Warehouse shall measure its Cumulative Load-In and Cumulative Normal Minimum Load-Out. Cumulative Normal Minimum Load-Out shall mean the sum of metal across every Business Day of the relevant Calculation Period that a DP Warehouse is required to load-out pursuant to the Normal Daily Minimum Load Out Rate (the “Cumulative Normal Minimum Load-Out”). Cumulative Load-In shall mean the sum, increased incrementally each Business Day of the relevant Calculation Period, of metal that the DP Warehouse loads-in during the relevant Calculation Period (the “Cumulative Load-In”). Both quantities will be set to zero at the beginning of the Calculation Period.

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the

DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).

For each Business Day during the Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question.

At the end of the Calculation Period, and if the DP Warehouse has been an Affected DP Warehouse on any Business Day during that Calculation Period, then the Incremental Load-Out Requirement will be calculated as:

(i) 0.5 (the “Decay Factor”) multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

(ii) the Cumulative Load-In above the Cumulative Normal Minimum Load- Out.

For the avoidance of doubt, if the DP Warehouse has not been an Affected DP Warehouse on any day during that Calculation Period, then the Incremental Load-Out Requirement will be zero in respect of that Calculation Period.

5. Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Incremental Load-Out Requirement must be satisfied by the DP Warehouse during the Discharge Period associated with the Calculation Period having just concluded, provided load-out demand is present.

During the associated Discharge Period, the DP Warehouse will be required to load-out the Incremental Load-Out Requirement, in addition to its load-out obligations in accordance with Section C above. For the avoidance of doubt, the DP Warehouse will not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Incremental Load-Out Requirement must be satisfied.

The DP Warehouse must offer additional slots created to meet the Incremental Load-Out Requirement to metal owners strictly in order of their position in the Queue.

6. Adjusting the Decay Factor and/or Queue Threshold

The LME, acting reasonably, reserves the right to adjust the Decay Factor and/or the Queue Threshold either on a market-wide basis or on a per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason.

7. A worked example of the calculation

This worked example is provided for illustrative purposes only and should not be relied upon for any reason.

(a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.

(b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:

(i) 1,000,000 tonnes / 3,000 tonnes per Business Day

(ii) = 333.3 Business Days

(iii) = 465.3 calendar days (assuming all weekdays are Business Days)

For the avoidance of doubt, in practice, the Queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

(c) Consider that the DP Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, Warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant Queue length until such time as the Incremental Load-Out Requirement comes into effect). There is assumed to be no re-warranting of metal in this scenario.

(d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Quantity is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Quantity:

(i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) (3,100 tonnes);

less,

(ii) the higher of (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question (also 3,000 tonnes).

= 3,100 tonnes – 3,000 tonnes = 100 tonnes

- (e) At the end of the Preliminary Calculation Period (31 January 2015), and assuming that each weekday during the Preliminary Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 415 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Quantity will total 41,500 tonnes.

Given that, per (c) above, the Queue will have retained a constant length, the Queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the Queue length is greater than 50 days, and the DP Warehouse is hence an Affected DP Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement will be set to the Cumulative Incremental Load-Out Quantity (41,500 tonnes), and must be satisfied by the DP Warehouse during the Preliminary Discharge Period.

- (f) During the Preliminary Discharge Period (1 March 2015 to 31 May 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the Preliminary Calculation Period (41,500 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.

- (g) At the start of the First Calculation Period (1 February 2015), the Cumulative Load-In and Cumulative Normal Minimum Load-Out are set to zero.

On each day during the First Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) – in this case 3,100 tonnes.

On each day during the First Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.

- (h) At the end of the First Calculation Period (30 April 2015), and assuming that each weekday during the First Calculation Period is a Business

Day for the DP Warehouse (resulting in a total of 64 Business Days during the First Calculation Period), then the Cumulative Load-In will total 198,400 tonnes, and the Cumulative Normal Minimum Load-Out will total 192,000 tonnes.

On the basis that the DP Warehouse has been an Affected DP Warehouse for at least one Business Day during the First Calculation Period, then the Incremental Load-Out Requirement will be calculated as follows:

(i) Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

(ii) the Cumulative Load-In above the Cumulative Normal Minimum Load-Out.

$$\underline{\underline{= 0.5 \times 192,000 + (198,400 - 192,000) = 96,000 + 6,400}}$$

$$\underline{\underline{= 102,400 \text{ tonnes}}}$$

(i) During the First Discharge Period (1 June 2015 to 31 August 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the First Calculation Period (102,400 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day, provided load-out demand is present.

(j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, until such time as the DP Warehouse ceases to be an Affected DP Warehouse.

F) Continued compliance with the LME policy for Warehouses

~~1.~~ 1. A Warehouse must at all times comply with the Warehouse Requirements. In the event that ~~an existing approved warehouse/warehouse company~~ a Warehouse does not appear to meet the ~~LME's criteria~~ Warehouse Requirements, there will be an initial review by the LME and consultation with the ~~warehouse company~~ Warehouse concerned.

~~2.~~ 2. If the ~~warehouse company~~ Warehouse can demonstrate that it will upgrade facilities or work practices to meet the LME's new standards, the LME will consider the appropriate amount of time to allow for such a process. Warehouses could, for example, be given, ~~say, 6-12 months~~ a period of time to upgrade their facilities or relocate to a more suitable building within the

~~location~~Delivery Point, but this would be determined on a case by case basis, according to the circumstances.

- ~~3.~~ 3. If after consultation ~~the warehouse company~~with the Warehouse, the Warehouse is unwilling or unable to upgrade its facilities or work practices to meet the LME's standards, the LME retains the right to restrict the capacity of that ~~warehouse company in that location or even delist it.~~Warehouse (or DP Warehouse as appropriate) or to delist it. In particular, if a Warehouse fails to comply with the Linked Load-In and Load-Out Requirements per Section E, then the Board may (among other actions) restrict the ability of that Warehouse to create Warrants in that Delivery Point until load-in and load-out are brought into alignment pursuant to the requirements.
- ~~4.~~ 4. Prior to implementation, the LME would give the necessary notice of any action to be taken to the ~~warehouse company~~Warehouse and allow for formal representations to be made.

EG) Review of LME policy for ~~warehouses~~Warehouses

This policy will be reviewed at least on a biennial basis.

H) General Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"DP Warehouse" shall mean all the Authorised Warehouses of a particular Warehouse within a Delivery Point.

"EXCOM" shall mean the Executive Committee of the LME.

"Group" shall mean, in relation to a company, any subsidiary or any holding company from time to time of that company, and any subsidiary from time to time of a holding company of that company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006.

"LILO Rule" shall mean the requirements set out in Section E of this policy.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Special Committee" shall mean the LME Committee to which the LME Directors have delegated the emergency powers under Regulation 15 of Part 3 of the LME Rulebook, as permitted by the Articles of Association of the LME.

"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Load-out" shall mean a delivery of metal out of the premises of an Authorised Warehouse which meets the requirements of this policy (including for the avoidance of doubt paragraph C9).

"Location" shall mean a geographic area capable of being a Delivery Point.

"Queue" means circumstances where load-out requests cannot be serviced immediately by a Warehouse, measured by the number of calendar days a metal owner cancelling a Warrant today must wait for a scheduled delivery slot.

"RMC" shall mean **roasted molybdenum concentrate**.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.

Document comparison by Workshare Professional on 06 November 2014 12:11:34

Input:	
Document 1 ID	interwovenSite://AG/LIVE/4928710/1
Description	#4928710v1<LIVE> - Original - approval of warehouses 6 nov
Document 2 ID	interwovenSite://AG/LIVE/4928165/2
Description	#4928165v2<LIVE> - Policy on the Approval and Operation of Warehouses - 6 Nov 2014
Rendering set	addleshaw goddard on screen version

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
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Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
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Insertions	240
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Moved from	3
Moved to	3
Style change	0
Format changed	0
Total changes	351

LME POLICY ON THE APPROVAL AND OPERATION OF WAREHOUSES, REVISED []

A) Warehouses

1. Applicants to be a Warehouse will be considered for approval and listing in an existing or new Delivery Point subject to completion of a Warehouse Agreement application form supported by evidence of insurance, capital adequacy and other documents as detailed by the LME from time to time. The LME will inspect premises and operations offered for warehousing to the LME prior to any listing to ensure they suit the logistical nature of the Location as required by the LME. The LME will state its needs in this respect when sending the applicant the application form. The LME has discretion to accept or decline an application for approval to be a Warehouse or attach specific conditions to approval to be a Warehouse.
2. A Warehouse shall have staff with sufficient experience in metal storage, logistics and systems to ensure that the Warehouse is able to comply with all applicable requirements on an ongoing basis. The LME may, in its reasonable discretion, reject an application from an applicant which is unable to demonstrate compliance with this requirement.
3. Applicants for approval shall be required to demonstrate that they do not:
 - (a) control the operation of any infrastructure or the provision of any service in the Location / Delivery Point that would be critical to any other Warehouse, or any company wishing to become a Warehouse, in the Location / Delivery Point concerned (including, without limitation, terminal operators which may operate all or most of the berths within a port; a logistics company providing all or most of the logistics services in the port (haulage and warehouse operations); or a company that owns all or most of the real estate/warehouses of the Location); or
 - (b) otherwise exercise control in the Location / Delivery Point;such that the LME would have a reasonable concern that the applicant's operation of a Warehouse could be detrimental to competition.
4. A Warehouse must comply at all times without limitation with: this policy and any other notices or policies issued by the LME, from time to time which apply to Warehouses; and the Warehouse Agreement (together the "Warehouse Requirements").



B) Transportation

Transport links

1. All Authorised Warehouses must have adequate transport links and be situated in close proximity to major highways.
2. With the exception of inland Delivery Points, all Authorised Warehouses must have adequate transport links and be situated in close proximity to water loading facilities.
3. All Authorised Warehouses located in Germany, Belgium, Netherlands, Sweden and the US must have adequate transport links and be situated in close proximity to railheads.
4. All Authorised Warehouses in inland Delivery Points must be directly connected to a rail network.

The LME, respecting such confidentiality as it deems necessary and appropriate, will undertake its own enquiries, as it sees fit, from its members/trade entities etc. to evaluate any applications prior to submission to EXCOM for consideration.

C) Common standards of working practices and facilities for Warehouses

1. For each 2500 sq. metres of space (not including open storage compounds for steel) there must be access by means of an operational door for vehicle loading/unloading, with a minimum of 2 doors per Authorised Warehouse.
2. The minimum daily delivery tonnage must be in accordance with the tables below. Where the delivery requests exceed the minimum daily delivery tonnage for the capacity on the table below, the LME will regard the standard as applying over the number of days necessary to complete the deliveries, as per the table (e.g. if the requests for the delivery of 2000 tonnes apply to a DP Warehouse's capacity of 2500 sq. metres, the standard would be to deliver in 3 days with no reference to the performance on any one of those days). The LME would, however, expect the DP Warehouse to act reasonably when allocating the tonnage delivered out in each of those days.

DP Warehouse's authorised space in sq. metres (excluding steel storage facilities)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes



The above table applies to all DP Warehouses who are storing up to 300,000 tonnes of metal. For DP Warehouses who are storing 300,000 tonnes and above, the following table is applicable.

DP Warehouse's tonnage stored (excluding steel)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

NB: The daily delivery tonnage is for deliveries out only and does not include deliveries in.

3. Where a DP Warehouse's tonnage stored increases beyond any of the 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a DP Warehouse's tonnage stored falls beneath any of the 300,000, 600,000 or 900,000 tonnes thresholds, a Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.

4. In addition to the daily rates stipulated above and below, a DP Warehouse who satisfies the following conditions:

- (a) the DP Warehouse has scheduled delivery out¹ commitments of 30,000 tonnes or more; and
- (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");

shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.

4. In addition to the daily delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:

- (a) Tin: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of tin, which may include the normal course scheduling of metal in

¹ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.



the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).

- (b) Nickel: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of nickel, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).
- (c) Metal warranted pursuant to the LME's specifications for the aluminium alloy contract and the North American Special Aluminium Alloy Contract ("NASAAC") (together "Aluminium Alloys"): DP Warehouses licensed to warrant Aluminium Alloys delivering out the minimum rates stipulated in this policy will be required to deliver out an additional daily total of 500 tonnes of Aluminium Alloys, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).

For the avoidance of doubt, the extra metal to be delivered out under this paragraph would only be required to be delivered out if the DP Warehouse had reached its minimum daily load-out rate without delivering out 60 tonnes of tin, 60 tonnes of nickel, and 500 tonnes of Aluminium Alloys, as part of these deliveries.

- 6. The daily delivery out rate does not include deliveries out for cobalt and RMC. Any deliveries out for either of these metals must be in addition to the rates stipulated in the above table.
- 7. The daily delivery out rate does not include deliveries out for steel billet. For each Delivery Point in which it is licensed to store steel billet, a DP Warehouse must deliver out in accordance with the minimum requirements stipulated in the tables below, provided demand is present.

DP Warehouse's authorised space in sq. metres (steel storage facilities only)	Minimum daily delivery tonnage for steel
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all DP Warehouses who are storing up to 300,000 tonnes of steel. For DP Warehouses who are storing 300,000 tonnes and above, the following table is applicable:

DP Warehouse's tonnage stored (steel only)	Minimum daily delivery tonnage for steel
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300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

8. In addition to the daily rates stipulated above, an “Affected DP Warehouse” (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).
9. To qualify as a load-out:
 - (a) The load-out must be accompanied by a bill of lading or other document issued by a carrier to the Warehouse, no matter the form of transportation, listing and acknowledging receipt of goods for transport; and
 - (b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group.

Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance of doubt, a high volume of sealed containers should have no impact on the load-out requirements.
10. Once all formalities permitting delivery, including payment of applicable delivery out charges (including without limitation Free on Truck charges ("FOT") or equivalent for other modes of transport), have been completed, the Warehouse shall endeavour to process requests for deliveries out on the basis of 48 hours' notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise. The FOT charges imposed by a Warehouse shall be the rates published at the date of cancellation not at the date of delivery.
11. Warehouses shall publish (on their website or other appropriate method) a clear process for scheduling and handling delivery slots (including required documents, timing of operations, etc.).



12. Warehouses are required to supply the LME with their current rent and FOT charges. In addition, Warehouses are also required to publish on their website in an easily accessible manner the current level of all fees that they charge to metal owners. Warehouses may not charge fees that exceed the levels published on their website, and may not impose any other compulsory charges on metal owners other than those so published.
13. With the exception of inland Delivery Points, there should be no charges above the FOT for returning metal to the Warehouse's approved and nominated loading berths (as advised to the LME in schedule B of the warehouse application); the unloading of such metal from the truck being for the receiver's account.
14. There should be no charges above the FOT for returning metal to the nearest railhead in Delivery Points situated in the countries referred to in section B3 above (as advised to the LME in schedule B of the warehouse application); the loading of such metal onto a railcar being for the receiver's account.
15. Warehouses are reminded that, in general, the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements. However, metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection. In particular, in the event that no metal owner wishes to avail themselves of a delivery slot offered on a reasonable basis and at a reasonable time of day, a Warehouse will be permitted to count the tonnage which would have been delivered in that slot towards delivery out if it can verify that the empty slot has been offered to all metal owners in the Queue.

D) The Premium Contract Rule

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts designated by the LME as "Premium Contracts" ("Premium Warrants"). The specification of Premium Contracts is made by the LME pursuant to the requirements in the "Premium Contract Regulations" set out in the LME Rulebook. Warrants not so endorsed will be referred to as "Standard Warrants". The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.
2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:
 - (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
 - (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a



- list of all DP Warehouses which have opted-in to the premium warrant regime; and
- (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.
3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:
- (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
- (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply
4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that



Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.

5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
 - (a) 1,000 tonnes per day; and
 - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.

For the avoidance of doubt, load-out obligations in respect of Premium Warrants are in addition to load-out obligations for Standard Warrants. In particular, the basis on which minimum load-out rates for Standard Warrants are calculated takes into account total stored tonnage in the DP Warehouse, related to both Standard Warrants and Premium Warrants.

7. Once it has opted into the Premium Contract Rule, a DP Warehouse may only opt-out if its stock of Premium Warrants is zero.
8. Premium Warrants may be converted back to Standard Warrants by agreement between the metal owner and the Warehouse. However, there shall be no obligation on Warehouses to facilitate such transfers.
9. Premium Warrants may be re-warranted by agreement between the metal owners and the Warehouse. However, there is no requirement on the Warehouse to re-warrant cancelled Premium Warrants as new Premium Warrants, and a Warehouse may reasonably offer to re-warrant a cancelled Premium Warrant as a Standard Warrant.



E) Linked Load-In and Load-Out Requirements

1. Principle

The general principle of this requirement is to link load-in and load-out for DP Warehouses with Queues of greater than 50 calendar days (the “Queue Threshold”).

2. LILO Rule Definitions

In relation to a particular DP Warehouse, a Business Day (“Business Day”) is any day on which that particular DP Warehouse is operating and subject to the current LME minimum load-out requirement.

The Preliminary Calculation Period (“Preliminary Calculation Period”) shall be the period between 1 July 2013 and 31 January 2015, inclusive.

The First Calculation Period (“First Calculation Period”) shall be the period between 1 February 2015 and 30 April 2015, inclusive.

Each subsequent Calculation Period (“Calculation Period”) shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period (“Second Calculation Period”) shall be the period between 1 May 2015 and 31 July 2015, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, (the “Preliminary Discharge Period”) which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 March 2015 and 31 May 2015, inclusive.

For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period (the “Discharge Period”). By way of example, the First Discharge Period shall be the period between 1 June 2015 and 31 August 2015, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period) (the “First Discharge Period”).

In relation to a particular DP Warehouse on any given Business Day, the Normal daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements set out in Section C of this Policy (the “Normal Daily Minimum Load-Out Rate”) as follows:

- (a) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of non-dominant metal (pursuant to paragraph 4 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load- Out Rate for the Business Day in question.



- (b) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of nickel, tin and/or Aluminium Alloys (pursuant to paragraph 5 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- (c) Load-out of cobalt and RMC (paragraph 6 of Section C above) and steel billet (paragraph 7 of Section C above) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of DP Warehouse load-out rates.

Re-warranted Metal ("Re-warranted Metal") is metal in respect of which a Warrant has been cancelled, but has not been loaded out of the DP Warehouse (due to the presence of a Queue or other operational constraint), and in respect of which the metal owner has requested that the Warehouse issues a new Warrant (and hence reverses the original request to deliver out that metal).

3. Affected DP Warehouses

On any given Business Day, an Affected DP Warehouse is a DP Warehouse with a Queue of greater than the Queue Threshold (the "Affected DP Warehouse"). Queue lengths will continue to be measured and reported to the LME by DP Warehouses, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a DP Warehouse has scheduled deliveries pursuant to any Incremental Load-Out Requirement arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

4. Calculating the Incremental Load-Out Requirement

The Incremental Load-Out Requirement shall mean the additional amount of metal that must be discharged by a DP Warehouse during the course of the relevant Discharge Period, over and above the load-out required by the Normal Daily Minimum Load-Out Rate on each day of that Discharge Period (the "Incremental Load-Out Requirement"). The Incremental Load-Out Requirement is derived on the final day of the relevant Calculation Period, as set out more fully in this section E, paragraph 4.

- (a) During the Preliminary Calculation Period, each DP Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Quantity which is the quantity set to zero at the beginning of the Preliminary Calculation Period and increased incrementally on each Business Day of the Preliminary Calculation Period by the process set out in this section E, paragraph 4(a) (the "Cumulative Incremental Load-Out Quantity").

During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Quantity:



- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt);

less,

- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph 2 of Section C above) shall not count towards the actual amount of metal loaded-out of the DP Warehouse.

On the final Business Day of the Preliminary Calculation Period, a DP Warehouse shall establish whether it is an Affected DP Warehouse at the end of that Business Day. If (i) the DP Warehouse is not an Affected DP Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Quantity is less than or equal to zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

- (b) During the First Calculation Period, and each subsequent Calculation Period, a DP Warehouse shall measure its Cumulative Load-In and Cumulative Normal Minimum Load-Out. Cumulative Normal Minimum Load-Out shall mean the sum of metal across every Business Day of the relevant Calculation Period that a DP Warehouse is required to load-out pursuant to the Normal Daily Minimum Load Out Rate (the “Cumulative Normal Minimum Load-Out”). Cumulative Load-In shall mean the sum, increased incrementally each Business Day of the relevant Calculation Period, of metal that the DP Warehouse loads-in during the relevant Calculation Period (the “Cumulative Load-In”). Both quantities will be set to zero at the beginning of the Calculation Period.

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).



For each Business Day during the Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question.

At the end of the Calculation Period, and if the DP Warehouse has been an Affected DP Warehouse on any Business Day during that Calculation Period, then the Incremental Load-Out Requirement will be calculated as:

- (i) 0.5 (the “Decay Factor”) multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load-Out.

For the avoidance of doubt, if the DP Warehouse has not been an Affected DP Warehouse on any day during that Calculation Period, then the Incremental Load-Out Requirement will be zero in respect of that Calculation Period.

5. Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Incremental Load-Out Requirement must be satisfied by the DP Warehouse during the Discharge Period associated with the Calculation Period having just concluded, provided load-out demand is present.

During the associated Discharge Period, the DP Warehouse will be required to load-out the Incremental Load-Out Requirement, in addition to its load-out obligations in accordance with Section C above. For the avoidance of doubt, the DP Warehouse will not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Incremental Load-Out Requirement must be satisfied.

The DP Warehouse must offer additional slots created to meet the Incremental Load-Out Requirement to metal owners strictly in order of their position in the Queue.

6. Adjusting the Decay Factor and/or Queue Threshold

The LME, acting reasonably, reserves the right to adjust the Decay Factor and/or the Queue Threshold either on a market-wide basis or on a per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason.

7. A worked example of the calculation

This worked example is provided for illustrative purposes only and should not be



relied upon for any reason.

- (a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- (b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:
 - (i) 1,000,000 tonnes / 3,000 tonnes per Business Day
 - (ii) = 333.3 Business Days
 - (iii) = 465.3 calendar days (assuming all weekdays are Business Days)

For the avoidance of doubt, in practice, the Queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

- (c) Consider that the DP Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, Warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant Queue length until such time as the Incremental Load-Out Requirement comes into effect). There is assumed to be no re-warranting of metal in this scenario.
- (d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Quantity is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Quantity:

- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) (3,100 tonnes);

less,
- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question (also 3,000 tonnes).

$$= 3,100 \text{ tonnes} - 3,000 \text{ tonnes} = 100 \text{ tonnes}$$



- (e) At the end of the Preliminary Calculation Period (31 January 2015), and assuming that each weekday during the Preliminary Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 415 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Quantity will total 41,500 tonnes.

Given that, per (c) above, the Queue will have retained a constant length, the Queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the Queue length is greater than 50 days, and the DP Warehouse is hence an Affected DP Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement will be set to the Cumulative Incremental Load-Out Quantity (41,500 tonnes), and must be satisfied by the DP Warehouse during the Preliminary Discharge Period.

- (f) During the Preliminary Discharge Period (1 March 2015 to 31 May 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the Preliminary Calculation Period (41,500 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- (g) At the start of the First Calculation Period (1 February 2015), the Cumulative Load-In and Cumulative Normal Minimum Load-Out are set to zero.

On each day during the First Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) – in this case 3,100 tonnes.

On each day during the First Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.

- (h) At the end of the First Calculation Period (30 April 2015), and assuming that each weekday during the First Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 64 Business Days during the First Calculation Period), then the Cumulative Load-In will total 198,400 tonnes, and the Cumulative Normal Minimum Load-Out will total 192,000 tonnes.

On the basis that the DP Warehouse has been an Affected DP Warehouse for at least one Business Day during the First Calculation Period, then the Incremental Load-Out Requirement will be calculated as follows:

- (i) Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;



plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load-Out.

$$= 0.5 \times 192,000 + (198,400 - 192,000) = 96,000 + 6,400$$

$$= 102,400 \text{ tonnes}$$

- (i) During the First Discharge Period (1 June 2015 to 31 August 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the First Calculation Period (102,400 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day, provided load-out demand is present.
- (j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, until such time as the DP Warehouse ceases to be an Affected DP Warehouse.

F) Continued compliance with the LME policy for Warehouses

1. A Warehouse must at all times comply with the Warehouse Requirements. In the event that a Warehouse does not appear to meet the Warehouse Requirements, there will be an initial review by the LME and consultation with the Warehouse concerned.
2. If the Warehouse can demonstrate that it will upgrade facilities or work practices to meet the LME's new standards, the LME will consider the appropriate amount of time to allow for such a process. Warehouses could, for example, be given, a period of time to upgrade their facilities or relocate to a more suitable building within the Delivery Point, but this would be determined on a case by case basis, according to the circumstances.
3. If after consultation with the Warehouse, the Warehouse is unwilling or unable to upgrade its facilities or work practices to meet the LME's standards, the LME retains the right to restrict the capacity of that Warehouse (or DP Warehouse as appropriate) or to delist it. In particular, if a Warehouse fails to comply with the Linked Load-In and Load-Out Requirements per Section E, then the Board may (among other actions) restrict the ability of that Warehouse to create Warrants in that Delivery Point until load-in and load-out are brought into alignment pursuant to the requirements.
4. Prior to implementation, the LME would give the necessary notice of any action to be taken to the Warehouse and allow for formal representations to be made.



G) Review of LME policy for Warehouses

This policy will be reviewed at least on a biennial basis.

H) General Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"DP Warehouse" shall mean all the Authorised Warehouses of a particular Warehouse within a Delivery Point.

"EXCOM" shall mean the Executive Committee of the LME.

"Group" shall mean, in relation to a company, any subsidiary or any holding company from time to time of that company, and any subsidiary from time to time of a holding company of that company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006.

"LIFO Rule" shall mean the requirements set out in Section E of this policy.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Special Committee" shall mean the LME Committee to which the LME Directors have delegated the emergency powers under Regulation 15 of Part 3 of the LME Rulebook, as permitted by the Articles of Association of the LME.

"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Load-out" shall mean a delivery of metal out of the premises of an Authorised Warehouse which meets the requirements of this policy (including for the avoidance of doubt paragraph C9).

"Location" shall mean a geographic area capable of being a Delivery Point.

"Queue" means circumstances where load-out requests cannot be serviced immediately by a Warehouse, measured by the number of calendar days a metal owner cancelling a Warrant today must wait for a scheduled delivery slot.



"RMC" shall mean roasted molybdenum concentrate.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.

LME POLICY ~~AND GUIDELINES REGARDING~~ ON THE APPROVAL OF GOOD LOCATIONS AS DELIVERY POINTS, REVISED 7 JULY 2011 []

A) Policy Criteria

1 For a new ~~location~~ Location to be approved as a ~~good~~ Delivery Point, the following criteria ~~are generally required to be fulfilled~~ shall be met:

(a) For any particular ~~LME Contract~~ metal subject to LME Contracts to be deliverable therein, the ~~location~~ Location should be in an ~~area~~ Area of ~~net consumption~~ Net Consumption and away from adjacent areas of production for that particular metal.

(b) ~~2.~~ The ~~Delivery Point~~ Location should ~~already be, or be genuinely believed to~~ be capable of becoming, a natural, logistically sound conduit for the passage of metal on to eventual consumption points.

(i) The Location should be positioned on the natural route (e.g. trade lanes which would exist without Authorised Warehouses) – current or potential if a consumption is believed to happen in the future (e.g. set-up of a new plant) - to the consumption centres that it serves. This is assessed, without limitation, to the quantity of metal going through the Location;

(ii) The Location should be connected to major trade lanes, allowing other consumption centres to be reached. This is assessed, without limitation, by reference to the number of deep sea connections (number of origins and destinations ("O/D") services, frequency of services, number of shipping lines serving the Location) and the volume handled by the Location (both break-bulk and containers).

(c) The ~~location~~ Location should be ~~considered~~ in the reasonable view of the LME, safe, well managed, politically and economically stable, commercially sensible, fiscally appropriate, legally sound and not subject to corruption.

(d) In the event of bankruptcy or insolvency of the Warehouse or other such contingency, there must be no restrictions placed upon owners of metal wishing to take possession of their individually identified metal and remove it from the Authorised Warehouse(s) (provided rent and handling charges are paid). This must be incorporated in the law of the jurisdiction in which the Location is situated.



- (e) Metal stored in Authorised Warehouses is the subject of international banking finance activity and, as such, the LME will only approve Locations where it is satisfied that the international banking community accepts the fully negotiable nature of the warehouse receipts ("LME warrants") being on a par with already approved Delivery Points.
- (f) Indefinite storage of metals must be permitted in a secure customs warehousing regime wherein any LME listed brand of metal may be stored without liability for duties prior to customs clearance. Domestically produced metal and any metal previously customs cleared, and with any duty accounted for, must also be allowed to be stored in the same Authorised Warehouses as bonded metal. There must be no liability for taxes on transactions for metal held in such Authorised Warehouses, nor a need for the Warehouse to determine ownership of the metal whilst in store. There must also be no taxes on storage costs.

The LME will not usually be prepared to approve a Location where there would be only a single Warehouse in such Location. A Location must be capable of hosting more than one Warehouse. The LME reserves the right to delist a Delivery Point which no longer hosts a Warehouse.

B) Criteria related to Working Practices and Facilities for Locations

- 1 It is required that there are a minimum of 3 working berths, private or public and accessible by each Warehouse, with a minimum water depth of 11 metres at all times.
- 2 The port must have the facilities available to be able to load 1500 tonnes per berth, per Weather Working Day. This standard has been set on the basis of aluminium ingots and, although the LME has an expectation that ports would be able to achieve higher rates for other metals, no specific separate standard has been set for them.
- 3 Standard working practice must be a minimum 8-hour working day (with labour normally available to work overtime if demand warrants) and on the basis of a 5-day working week.
- 4 Each Location must have container and break bulk terminals.
- 5 Rail connectivity is required in the US and in the following European countries: Germany, Belgium, Netherlands, Sweden. When considering an application to be a Delivery Point in a new country, the LME will carry out a specific study to determine if rail is required.



- 6 An Inland Location may be approved as a Delivery Point on a case by case basis. Applications for Inland Locations to be Delivery Points shall be considered with reference to the following criteria related to working practices and facilities for Locations:
- (a) Whether they are positioned on land trade lanes (i.e. metal naturally goes from production to consumption centres only through land transportation) with significant volumes;
 - (b) Barge and rail connectivity;
 - (c) In addition to connectivity to consumption centres in the Area, the existence of connectivity to major export ports of the relevant Area, through rail and barging;
 - (d) Minimum capacity of 4,500 tonnes per Weather Working Day, through a combination of rail and barging terminals accessible by each Warehouse.
- 7 The maximum geographical distance of the Location of an Authorised Warehouse from the appropriate water and rail terminals (when necessary) is to be established by the LME. The existing Delivery Point boundaries may be increased on a case by case basis in circumstances of shortage of storage capacity by small increments of driving distance and subject to reasonable transit time. The demonstration of shortage of storage capacity will have to be made by the applicant before being reviewed by the LME.
- 8 While there may be exceptions to the above ~~rules that are, or were, rationalised on a case-by-case basis, such exceptions are very much in the minority~~ criteria, such exceptions are expected to be rare.

~~In respect of existing locations, so long as any location is approved as a good Delivery Point for a particular LME contract metal, there shall be no ^{capacity} constraints applied in respect of that LME contract metal, unless the LME determines that in its opinion the level of warranted stocks of a particular metal held in a location adversely impacts, or is likely to adversely impact, the credibility of the LME price.~~

~~*In this context “capacity constraints” refers to storage capacity in terms of the tonnage of a particular LME contract metal as opposed to the amount of storage space available in terms of square feet or square meters. Also, the introduction of such capacity constraints requires at least three months’ notice, and will be applied at the Board’s absolute discretion, taking account of particular circumstances.~~

Guidelines

~~Locations will be considered for listing by the LME if they meet the general criteria shown below: -~~



C) Application process

1 Applications for approval as Delivery Points by the LME should comply with the following process:

- (a) ~~1. The presentation of the initial **location** Location application, with the supporting information requested, should be made by the port authority or (in exceptional cases) such other relevant authority controlling warehousing in the **location** Location. If there is no such **an** authority ~~is non-existent~~ then ~~a warehouse company may make such an application~~ may be made by a Warehouse. ~~The LME prefers to approve simultaneously a minimum of two operators in any listed location if at all practicable.~~~~
- (b) It should be noted that there is no set time scale for approving or otherwise any application due to the indeterminate time required to process all aspects of the application. The application process is structured with at least four gates, whereby each needs to be passed before proceeding to the next gate
- (i) Gate 1: complete submission of all documents required by the LME to process the application and determine whether the basic criteria are satisfied;
- (ii) Gate 2: technical assessment by the LME based on the criteria listed in this policy;
- (iii) Gate 3: committee input (Metal Committee giving non-binding opinion on the Area of Net Consumption and Warehousing Committee giving non-binding opinion on logistics connectivity and infrastructure); and
- (iv) Gate 4: Final assessment by the LME and formal decision.
- (c) ~~2. It should be noted that there is no set time scale for approving or otherwise any application due to the indeterminate time required to process all aspects of the application.~~ Should an application be accepted ~~in principle by the warehousing and relevant metals committees and subsequently ratified by the Board directors of the Exchange~~ by the EXCOM, commencement of LME approved operations would not take place for a minimum of 90 days after Board approval and would be subject to ~~satisfactory warehouse companies and warehouses~~ applicant Warehouses being similarly approved.



Indefinite storage of metals must be permitted in a secure customs warehousing regime wherein any LME listed brand of metal may be stored without liability for duties prior to customs clearance. Domestically produced metal and any metal previously customs cleared, and with any duty accounted for, must also be allowed to be stored in the same ~~warehouses~~ as bonded metal. There must be no liability for taxes on transactions for metal held in such ~~warehouses~~, ~~nor a need for the warehouse company to determine ownership of the metal whilst in store.~~ There must also be no taxes on storage costs.

(d) A Location should have substantial logistical connections on international trading routes. It is the responsibility of the applicant to provide at least the following information:

(i) ~~4. A location should have substantial logistical connections on international trading routes. It is the responsibility of the applicant to provide statistical~~ Statistical evidence of throughput tonnages of LME metals by means of contact with the metals trade, forwarding agents, fabricators, producers, warehouse companies, traders etc to support the application. ~~This information must also include detail/data of the logistical support services of the location such as container terminals, rail services, berthing numbers/depths as applicable etc. Within this detail must be provided information of the approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in metals. Detailed maps/plans showing the outline of the area and location evidencing the logistical connections and locations of short/long term warehouse facilities are required.;~~

(A) Statistics on production and consumption as well as imports and exports in the Area;

(B) Major production plants and consumption and associated volumes in the Area; and

(C) Trade flows serviced (i.e., O/D served) with associated services in the Area.

(ii) Logistics connections:

(A) Maritime: number of short sea and deep sea connections, number of shipping lines calling at the port, frequency of services;

(B) Rail: frequency of service and time to access major consumption points; and

(C) If applicable, barge: frequency of services and time to access major consumption points.

~~It is required that there are a minimum of 3 working berths, private or public and accessible by each warehouse company, with a minimum water depth of 8 metres at all times.~~



- (iii) Detail/data of the logistics **support services of the Location:**

 - (A) Container terminals, break-bulk terminals and rail terminals (including crane infrastructure);
 - (B) Number, length and depth of berths (including draft for access e.g. river draft); and
 - (C) Number and capacity of rail terminals.
- (iv) **Approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in metals.**
- (v) **Logistics infrastructure:**

 - (A) Estimation of number of available sheds that warehousing companies can use for LME storage operations; and
 - (B) Detailed maps / plans showing the outline of the Location evidencing the logistical connections and locations of short/long term warehouse facilities are required.
- (vi) **If applicable, description of any potential or actual exercise of control in activities such as terminal operations, warehouse ownership, logistics operations within the port, etc and the anticipated impact on competition in relation to warehousing operations in the Location.**
- (e) A description of the Location's **work labour practices is required;** and should include at least the following elements:

 - (i) Working / overtime hours;
 - (ii) Labour costs; and
 - (iii) Time to load truck / rail / container.
- (f) ~~5. A description of the location work labour practices is required.~~ This should illustrate the degree of integrated warehousing/ forwarding/stevedoring activities and whether it/they are privately/ municipality run. Normal working hours and overtime potential should be explained so that the LME may gauge productivity in comparison with ~~other locations already listed~~ currently approved Delivery Points.



(g) ~~6.~~ A description of matters relevant to the ~~location~~Location's corruption and bribery risk is required. This should describe in broad terms whether the ~~location~~Location has enacted, and whether it routinely enforces, laws relating to the corruption of ~~public—officials~~Public Officials; whether demands for facilitation payments are commonly made by ~~public—officials~~Public Officials in the ~~location~~Location; and (if relevant) what, if any, steps are underway or planned to address such issues.

(h) The LME is entitled to request any external third party studies that it deems necessary to investigate any specific aspects, at the applicant's expense. This diligence may cover, without limitation, at least the following areas:

(i) Metal ownership – confirmation that:

(A) Warrants and warehouse receipts would be capable of being the document of title, and ownership of warrants can be transferred using LMEsword or any successor system; and

(B) ~~7. In the event of bankruptcy of the warehouse company or other such contingency, there must be no restrictions placed upon owners of metal wishing to take possession of their individually identified metal and remove it from the warehouse (s) (provided rent and handling charges are paid). This must be incorporated in the law of the jurisdiction in which the location is situated.~~ Metal belonging to the owner can be removed in case of bankruptcy or insolvency of a potential applicant Warehouse, subject only to any outstanding rent and handling charges having been paid.

~~8. Metal stored in warehouses is the subject of international banking finance activity and, as such, the LME will only approve locations where it is satisfied that the international banking community accepts the fully negotiable nature of the warehouse receipts (LME warrants) being on a par with already listed locations.~~

(ii) Companies – confirmation that:

(A) Potential applicant Warehouses can be owned by foreign entities;

(B) Operations in foreign currency are allowed;

(C) There is no restriction on the repatriation of profits from the location.

(iii) Taxes - confirmation that:



- (A) The tax and duty free environment is appropriate in connection with transactions involving metal stored in the location, or on services provided in relation to the metal e.g. storage, ancillary services, stevedoring & handling;
- (B) There would be no location duties and no time limit on storage of metal;
- (C) Any seller / buyer who is not established in the territory of the country would not be obliged to have a tax registration or to submit a tax return solely on account of the trading of metal in warehouse; and
- (D) Metal bound for export or moving between different Warehouses / Locations would not be liable to tax or duty.

(iv) Others – confirmation that:

- (A) There would be no conflict between LME requirements and insurance laws that preclude potential applicant Warehouses from obtaining the necessary cover under the Warehouse Agreement;
- (B) There would be no requirement to keep lists of metal owners;
- (C) There should be no requirement to report sales of metals made within the Warehouse;
- (D) There would be no embargo (other than an United Nations-related embargo) against origin countries for metals for which a location is seeking approval as a Delivery Point;
- (E) There are no export license requirements;
- (F) Domestic and foreign goods can be stored in the same warehouse environment; and
- (G) Metals within the same (HS) harmonized system codes as LME listed brands will be treated in like manner as LME listed brands

- (i) ~~9.~~ The LME will need to be satisfied by its own members, warehousing and appropriate metals committees, professional advisers and



independent research that each facet of the application is accurate before indicating acceptance in principle of a ~~location~~Location. At this stage it would be necessary for potential ~~warehouse companies~~applicant Warehouses to be identified which would apply for LME approval, if this has not already been done, ~~who can ultimately apply for listing in accordance with the general principles outlined below.~~

~~Common Standards of Working Practices and Facilities for Locations~~

~~2. The port must have the facilities available to be able to load 1500 tonnes per berth, per weather working day. This standard has been set on the basis of aluminium ingots and the LME has an expectation that ports would be able to achieve higher rates for other metals, no specific separate standard has been set for them.~~

~~Working practice to be minimum 8 hour working day with labour normally available to work overtime if demand warrants and on the basis of a 5-day working week.~~

~~4. Each location must have container and break bulk terminals. Inland locations will be considered on a case by case basis.~~

~~The maximum geographical distance of the location of LME listed warehouses from the appropriate water terminals is to be established by the LME. The LME will also establish maximum distances from appropriate rail connections where the LME has established that such connections are necessary.~~

(i) The LME will report to the Warehousing Committee the number and identity of Delivery Point applicants by gate on a regular basis.

D) Continued compliance with policy and guidelines

1 ~~1.~~ In the event that an existing ~~location~~Delivery Point does not appear to continue to meet the LME's criteria, there will be an initial review by the LME and consultation with the ~~warehouse companies~~Warehouse and the port authority in that ~~location~~Delivery Point.

2 ~~2.~~ If, after consultation the port authority is able to demonstrate that it will upgrade its facilities, transitional arrangements can be made to allow an acceptable length of time for completion and this would be determined on a case by case basis, according to the circumstances.

3 ~~3.~~ If, after consultation, the relevant port authority is unwilling or unable to upgrade the facilities or work practices to meet the LME's standards, the LME retains the right to limit the capacity in that ~~location~~Delivery Point or to delist it.

4 ~~4.~~ Where a ~~location~~Delivery Point's corruption risk changes, LME retains the right to limit the capacity in that ~~location~~Delivery Point or to delist it.



- 5** ~~5.~~ Generally speaking, implementation of capacity limits would, unless there are exceptional circumstances, be implemented over a reasonable period by imposing a ban on new warrants being issued and allowing natural wastage to bring levels down to the required tonnage. Similarly, delisting a ~~location~~ Delivery Point would require a run down of stocks over a reasonable period of time by imposing a ban on the issuing of new warrants and natural wastage, followed by an eventual de-warranting of any remaining metal and its removal to another ~~location~~ Delivery Point for re-warranting. In both these instances the LME would assess what implementation period would be reasonable on a case by case basis, taking into account all factors put forward in the consultation process, and it could be several years where the LME deems appropriate.

E) Review of LME policy and guidelines for good delivery points

This policy and guidelines will be reviewed at least on a biennial basis.

F) Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Area" shall mean a country, regions of large countries, or an aggregation of small countries with an integrated logistics land network as determined by the LME acting reasonably.

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"EXCOM" shall mean the Executive Committee of the LME.

"Inland Location" means a geographic area away from the sea without direct short-sea and deep-sea connections.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Location" shall mean a geographic area capable of being a Delivery Point.

"Metal Committee" shall mean the relevant LME metal committee, details of which are set out on the LME website www.lme.com.



"Net Consumption" shall mean a significant negative trade balance for the metal in question across two consecutive years.

"Public Official" means an official, whether elected or appointed, who holds a legislative, administrative or judicial position of any kind of a country or territory inside or outside the UK.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warehousing Committee" shall mean the LME warehousing committee, details of which are set out on the LME website www.lme.com.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.

"Weather Working Day" shall mean any day in which meteorological conditions permit normal operations.

Document comparison by Workshare Professional on 06 November 2014 12:09:13

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Document 2 ID	interwovenSite://AG/LIVE/4928183/1
Description	#4928183v1<LIVE> - Policy on the Approval of Locations as Delivery Points - 6 Nov 2014
Rendering set	addleshaw goddard on screen version

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	211
Deletions	81
Moved from	24
Moved to	24
Style change	0
Format changed	0
Total changes	340

LME POLICY ON THE APPROVAL OF LOCATIONS AS DELIVERY POINTS, REVISED []

A) Policy Criteria

- 1 For a new Location to be approved as a Delivery Point, the following criteria shall be met:
 - (a) For any particular metal subject to LME Contracts to be deliverable therein, the Location should be in an Area of Net Consumption and away from adjacent areas of production for that particular metal.
 - (b) The Location should be capable of becoming, a natural, logistically sound conduit for the passage of metal on to eventual consumption points:
 - (i) The Location should be positioned on the natural route (e.g. trade lanes which would exist without Authorised Warehouses) – current or potential if a consumption is believed to happen in the future (e.g. set-up of a new plant) - to the consumption centres that it serves. This is assessed, without limitation, to the quantity of metal going through the Location;
 - (ii) The Location should be connected to major trade lanes, allowing other consumption centres to be reached. This is assessed, without limitation, by reference to the number of deep sea connections (number of origins and destinations ("O/D") services, frequency of services, number of shipping lines serving the Location) and the volume handled by the Location (both break-bulk and containers).
 - (c) The Location should be, in the reasonable view of the LME, safe, well managed, politically and economically stable, commercially sensible, fiscally appropriate, legally sound and not subject to corruption.
 - (d) In the event of bankruptcy or insolvency of the Warehouse or other such contingency, there must be no restrictions placed upon owners of metal wishing to take possession of their individually identified metal and remove it from the Authorised Warehouse(s) (provided rent and handling charges are paid). This must be incorporated in the law of the jurisdiction in which the Location is situated.
 - (e) Metal stored in Authorised Warehouses is the subject of international banking finance activity and, as such, the LME will only approve Locations where it is satisfied that the international banking community accepts the fully negotiable nature of the warehouse receipts ("LME warrants") being on a par with already approved Delivery Points.



- (f) Indefinite storage of metals must be permitted in a secure customs warehousing regime wherein any LME listed brand of metal may be stored without liability for duties prior to customs clearance. Domestically produced metal and any metal previously customs cleared, and with any duty accounted for, must also be allowed to be stored in the same Authorised Warehouses as bonded metal. There must be no liability for taxes on transactions for metal held in such Authorised Warehouses, nor a need for the Warehouse to determine ownership of the metal whilst in store. There must also be no taxes on storage costs.

The LME will not usually be prepared to approve a Location where there would be only a single Warehouse in such Location. A Location must be capable of hosting more than one Warehouse. The LME reserves the right to delist a Delivery Point which no longer hosts a Warehouse.

B) Criteria related to Working Practices and Facilities for Locations

- 1 It is required that there are a minimum of 3 working berths, private or public and accessible by each Warehouse, with a minimum water depth of 11 metres at all times.
- 2 The port must have the facilities available to be able to load 1500 tonnes per berth, per Weather Working Day. This standard has been set on the basis of aluminium ingots and, although the LME has an expectation that ports would be able to achieve higher rates for other metals, no specific separate standard has been set for them.
- 3 Standard working practice must be a minimum 8-hour working day (with labour normally available to work overtime if demand warrants) and on the basis of a 5-day working week.
- 4 Each Location must have container and break bulk terminals.
- 5 Rail connectivity is required in the US and in the following European countries: Germany, Belgium, Netherlands, Sweden. When considering an application to be a Delivery Point in a new country, the LME will carry out a specific study to determine if rail is required.
- 6 An Inland Location may be approved as a Delivery Point on a case by case basis. Applications for Inland Locations to be Delivery Points shall be considered with reference to the following criteria related to working practices and facilities for Locations:
 - (a) Whether they are positioned on land trade lanes (i.e. metal naturally goes from production to consumption centres only through land transportation) with significant volumes;
 - (b) Barge and rail connectivity;



- (c) In addition to connectivity to consumption centres in the Area, the existence of connectivity to major export ports of the relevant Area, through rail and barging;
 - (d) Minimum capacity of 4,500 tonnes per Weather Working Day, through a combination of rail and barging terminals accessible by each Warehouse.
- 7 The maximum geographical distance of the Location of an Authorised Warehouse from the appropriate water and rail terminals (when necessary) is to be established by the LME. The existing Delivery Point boundaries may be increased on a case by case basis in circumstances of shortage of storage capacity by small increments of driving distance and subject to reasonable transit time. The demonstration of shortage of storage capacity will have to be made by the applicant before being reviewed by the LME.
- 8 While there may be exceptions to the above criteria, such exceptions are expected to be rare.

C) Application process

- 1 Applications for approval as Delivery Points by the LME should comply with the following process:
 - (a) The presentation of the initial Location application, with the supporting information requested, should be made by the port authority or (in exceptional cases) such other relevant authority controlling warehousing in the Location. If there is no such authority then an application may be made by a Warehouse.
 - (b) It should be noted that there is no set time scale for approving or otherwise any application due to the indeterminate time required to process all aspects of the application. The application process is structured with at least four gates, whereby each needs to be passed before proceeding to the next gate
 - (i) Gate 1: complete submission of all documents required by the LME to process the application and determine whether the basic criteria are satisfied;
 - (ii) Gate 2: technical assessment by the LME based on the criteria listed in this policy;
 - (iii) Gate 3: committee input (Metal Committee giving non-binding opinion on the Area of Net Consumption and Warehousing Committee giving non-binding opinion on logistics connectivity and infrastructure); and
 - (iv) Gate 4: Final assessment by the LME and formal decision.



- (c) Should an application be accepted by the EXCOM, commencement of LME approved operations would not take place for a minimum of 90 days after Board approval and would be subject to applicant Warehouses being similarly approved.
- (d) A Location should have substantial logistical connections on international trading routes. It is the responsibility of the applicant to provide at least the following information:
 - (i) Statistical evidence of throughput tonnages of LME metals by means of contact with the metals trade, forwarding agents, fabricators, producers, warehouse companies, traders etc to support the application:
 - (A) Statistics on production and consumption as well as imports and exports in the Area;
 - (B) Major production plants and consumption and associated volumes in the Area; and
 - (C) Trade flows serviced (i.e., O/D served) with associated services in the Area.
 - (ii) Logistics connections:
 - (A) Maritime: number of short sea and deep sea connections, number of shipping lines calling at the port, frequency of services;
 - (B) Rail: frequency of service and time to access major consumption points; and
 - (C) If applicable, barge: frequency of services and time to access major consumption points.
 - (iii) Detail/data of the logistics support services of the Location:
 - (A) Container terminals, break-bulk terminals and rail terminals (including crane infrastructure);
 - (B) Number, length and depth of berths (including draft for access e.g. river draft); and
 - (C) Number and capacity of rail terminals.
 - (iv) Approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in metals.
 - (v) Logistics infrastructure:



- (A) Estimation of number of available sheds that warehousing companies can use for LME storage operations; and
 - (B) Detailed maps / plans showing the outline of the Location evidencing the logistical connections and locations of short/long term warehouse facilities are required.
- (vi) If applicable, description of any potential or actual exercise of control in activities such as terminal operations, warehouse ownership, logistics operations within the port, etc and the anticipated impact on competition in relation to warehousing operations in the Location.
- (e) A description of the Location's work labour practices is required; and should include at least the following elements:
 - (i) Working / overtime hours;
 - (ii) Labour costs; and
 - (iii) Time to load truck / rail / container.
- (f) This should illustrate the degree of integrated warehousing/ forwarding/stevedoring activities and whether it/they are privately/ municipality run. Normal working hours and overtime potential should be explained so that the LME may gauge productivity in comparison with currently approved Delivery Points.
- (g) A description of matters relevant to the Location's corruption and bribery risk is required. This should describe in broad terms whether the Location has enacted, and whether it routinely enforces, laws relating to the corruption of Public Officials; whether demands for facilitation payments are commonly made by Public Officials in the Location; and (if relevant) what, if any, steps are underway or planned to address such issues.
- (h) The LME is entitled to request any external third party studies that it deems necessary to investigate any specific aspects, at the applicant's expense. This diligence may cover, without limitation, at least the following areas:
 - (i) Metal ownership – confirmation that:
 - (A) Warrants and warehouse receipts would be capable of being the document of title, and ownership of warrants can be transferred using LMEsword or any successor system; and



- (B) Metal belonging to the owner can be removed in case of bankruptcy or insolvency of a potential applicant Warehouse, subject only to any outstanding rent and handling charges having been paid.
- (ii) Companies – confirmation that:
 - (A) Potential applicant Warehouses can be owned by foreign entities;
 - (B) Operations in foreign currency are allowed;
 - (C) There is no restriction on the repatriation of profits from the location.
- (iii) Taxes - confirmation that:
 - (A) The tax and duty free environment is appropriate in connection with transactions involving metal stored in the location, or on services provided in relation to the metal e.g. storage, ancillary services, stevedoring & handling;
 - (B) There would be no location duties and no time limit on storage of metal;
 - (C) Any seller / buyer who is not established in the territory of the country would not be obliged to have a tax registration or to submit a tax return solely on account of the trading of metal in warehouse; and
 - (D) Metal bound for export or moving between different Warehouses / Locations would not be liable to tax or duty.
- (iv) Others – confirmation that:
 - (A) There would be no conflict between LME requirements and insurance laws that preclude potential applicant Warehouses from obtaining the necessary cover under the Warehouse Agreement;
 - (B) There would be no requirement to keep lists of metal owners;
 - (C) There should be no requirement to report sales of metals made within the Warehouse;
 - (D) There would be no embargo (other than an United Nations-related embargo) against origin countries for



metals for which a location is seeking approval as a Delivery Point;

- (E) There are no export license requirements;
 - (F) Domestic and foreign goods can be stored in the same warehouse environment; and
 - (G) Metals within the same (HS) harmonized system codes as LME listed brands will be treated in like manner as LME listed brands
- (i) The LME will need to be satisfied by its own members, warehousing and appropriate metals committees, professional advisers and independent research that each facet of the application is accurate before indicating acceptance in principle of a Location. At this stage it would be necessary for potential applicant Warehouses to be identified which would apply for LME approval, if this has not already been done.
- (j) The LME will report to the Warehousing Committee the number and identity of Delivery Point applicants by gate on a regular basis.

D) Continued compliance with policy and guidelines

- 1 In the event that an existing Delivery Point does not appear to continue to meet the LME's criteria, there will be an initial review by the LME and consultation with the Warehouse and the port authority in that Delivery Point.
- 2 If, after consultation the port authority is able to demonstrate that it will upgrade its facilities, transitional arrangements can be made to allow an acceptable length of time for completion and this would be determined on a case by case basis, according to the circumstances.
- 3 If, after consultation, the relevant port authority is unwilling or unable to upgrade the facilities or work practices to meet the LME's standards, the LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 4 Where a Delivery Point's corruption risk changes, LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 5 Generally speaking, implementation of capacity limits would, unless there are exceptional circumstances, be implemented over a reasonable period by imposing a ban on new warrants being issued and allowing natural wastage to bring levels down to the required tonnage. Similarly, delisting a Delivery Point would require a run down of stocks over a reasonable period of time by imposing a ban on the issuing of new warrants and natural wastage, followed by an eventual de-warranting of any remaining metal and its removal to another Delivery Point for re-warranting. In both these instances the LME would assess what implementation period would be reasonable on a case by



case basis, taking into account all factors put forward in the consultation process, and it could be several years where the LME deems appropriate.

E) Review of LME policy and guidelines for good delivery points

This policy and guidelines will be reviewed at least on a biennial basis.

F) Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Area" shall mean a country, regions of large countries, or an aggregation of small countries with an integrated logistics land network as determined by the LME acting reasonably.

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"EXCOM" shall mean the Executive Committee of the LME.

"Inland Location" means a geographic area away from the sea without direct short-sea and deep-sea connections.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Location" shall mean a geographic area capable of being a Delivery Point.

"Metal Committee" shall mean the relevant LME metal committee, details of which are set out on the LME website www.lme.com.

"Net Consumption" shall mean a significant negative trade balance for the metal in question across two consecutive years.

"Public Official" means an official, whether elected or appointed, who holds a legislative, administrative or judicial position of any kind of a country or territory inside or outside the UK.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.



"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warehousing Committee" shall mean the LME warehousing committee, details of which are set out on the LME website www.lme.com.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.

"Weather Working Day" shall mean any day in which meteorological conditions permit normal operations.

Physical premium contract specifications

Preliminary specifications for the LME Premium Futures Contracts

Contract specification	Description																			
Contract names	LME US Aluminium Premium	LME Western Europe Aluminium Premium	LME Eastern Asia Aluminium Premium	LME South-Eastern Asia Aluminium Premium																
Regions	Midwest, Northeast and South US regions (as per US Census Bureau)	Western Europe (as per UN Geoscheme M49 classification)	Eastern Asia (as per UN Geoscheme M49 classification)	South-Eastern Asia (as per UN Geoscheme M49 classification)																
Underlying metal	High grade primary aluminium premium warrant in the designated region																			
Lot size	25 tonnes																			
Prompt dates	Third Wednesday of each maturity month, subject to trading regulations																			
Maturity months	Monthly out to 15 months																			
Price quotation	US dollars per tonne																			
Clearable currencies	US dollar																			
Position limits	An appropriate position management regime will be implemented																			
Minimum price fluctuation (tick size) per tonne	Tick sizes to follow the main LME Aluminium contract: <table><tr><td colspan="2">Outrights</td><td colspan="2">Carries</td></tr><tr><td>Ring:</td><td>\$0.50</td><td>Ring:</td><td>\$0.01</td></tr><tr><td>LMeselect:</td><td>\$0.25</td><td>LMeselect:</td><td>\$0.01</td></tr><tr><td>Inter-office:</td><td>\$0.01</td><td>Inter-office:</td><td>\$0.01</td></tr></table>				Outrights		Carries		Ring:	\$0.50	Ring:	\$0.01	LMeselect:	\$0.25	LMeselect:	\$0.01	Inter-office:	\$0.01	Inter-office:	\$0.01
Outrights		Carries																		
Ring:	\$0.50	Ring:	\$0.01																	
LMeselect:	\$0.25	LMeselect:	\$0.01																	
Inter-office:	\$0.01	Inter-office:	\$0.01																	
Last trading day and time	By 12.30 (London local time) two business days before the third Wednesday of the contract month trading in the expiring contract																			
Settlement type	Physically delivered Seller provides: LME aluminium premium warrant in the designated region Buyer provides: Any LME aluminium warrant, PLUS the Premium cash as agreed at contract formation, LESS the premium aluminium FOT charge at the warehouse where the LME aluminium premium warrant is delivered																			
Trading venues	Ring, LMeselect, inter-office telephone																			
Trading hours	Ring: 5 minutes for all regions at end of Ring 2 for Official Prices and Afternoon Kerb for Closing Prices LMeselect: 01:00 – 19:00 London local time Inter-office: 24 hours a day																			
Margining	Initial and contingent variation margins applied per LME Clear risk management parameters																			