



**FOEX**

**Fine-tuning PIX-specifications  
Old and new index uses  
UTIPULP / EUROPULP Seminar,  
18 September 2014  
PIX Pulp Europe Indexes**



# Agenda

- **Why the changes**
- **Working group of UTIPULP and EPIS members**
- **Key points of discussion within the working group**
  - **Weekly or monthly**
  - **Minimum volume / currency**
  - **Delivery and payment terms**
  - **Price data provider qualifications / Data provision agreement**
  - **What price data providers submit**
  - **Weighting / Comparisons with the present**
  - **Auditing**
- **Next steps to be taken**
- **Other news**



# Why

- **To increase the confidence of the index**
- **Need to be verifiable, reliable and transparent**
- **Changes since the old specifications were made**
  - **Less euro – deals**
  - **Logistics / Delivery terms / Container vs. break bulk, etc.**
  - **Retroactive pricing**
- **Tightened financial regulations / index quality requirements**



# Working group

- Thank you !
- Members : Paul Bartmann, Ari Borg, John Govier, Ari Harmaala, Nils Hegerding/Dave Cooper, FOEX/Airisto (and Nordea)
- 3 meetings, the latest this morning
- A DRAFT is available at short notice
- Additional comments continue to be welcomed



# Weekly or monthly

- Major point of discussion
- Both options have their merits and weaknesses
- Majority of working group favours continuing with the weekly index



## Minimum volume / currency

- **Today: 100 metric tons**
- **Proposed: NBSKP 100 metric tons, BHKP 200 metric tons**
  
- **Today: USD and/or EUR**
- **Proposed: USD (EUR values given through conversion)**
- **Exchange rate today: previous week's Friday from ECB**
- **Exchange rate proposed: previous week's average**



## Delivery and payment terms

- Today: CIF
- Proposed: The price is a gross transaction price **on standard delivery and payment terms between buyer and seller**
- Annex with examples ( e.g. not ex-works or FOB )



## Price data provider qualifications / Provision agreement

- Pulp producers, buyers and agents **(or a buyer/seller acting on behalf of another buyer/seller)** as well as trading houses that act on behalf of a producer or a buyer, qualify as a price provider. **(no doubling; weighting adjusted)**
- Written data provision agreement
- Data providers' responsibilities; e.g. organizing reporting & reporting frequency
- Consent **to have their reported prices audited**
- FOEX' responsibilities; e.g. only the operative personnel employed by FOEX Indexes Ltd., have access to the price data received from the price providers.



## What price data providers submit

- Data providers submit prices reflecting **ALL eligible transactions**
- A “transaction” is a final agreement on price of an order for pulp to be shipped at a future date (or has already been shipped)
- **Two options to submit prices:**
  - 1) **Separate transaction prices:** Providers submit prices reflecting ALL eligible transactions and submit the share (either tonnage or %) of each of these transactions of the total volume of eligible transactions of that week.
  - 2) **Single weighted average price:** Providers submit a single price reflecting the weighted average price of all eligible transactions over the previous week.
- Examples to be given in Annex



## Weighting / Comparisons with the present

- Achieved by allowing more price points to larger buyers/sellers than smaller ones
- The no. of price points allowed to each provider is **scaled by the annual volume (previous year) of sales/purchases of market pulp** (to be adjusted if major capacity changes occur)
- **FOEX reserves the right to adjust the weighting** even during the year in order to keep the share between buyers and sellers at **a minimum of 35% or a maximum of 65%**.
- **Separate** weighting scales for NBSKP and BHKP
- **In practice little change from present**

## Weighting – draft

### Categories based on annual production or consumption of all BSKP /BHKP grades during 2013

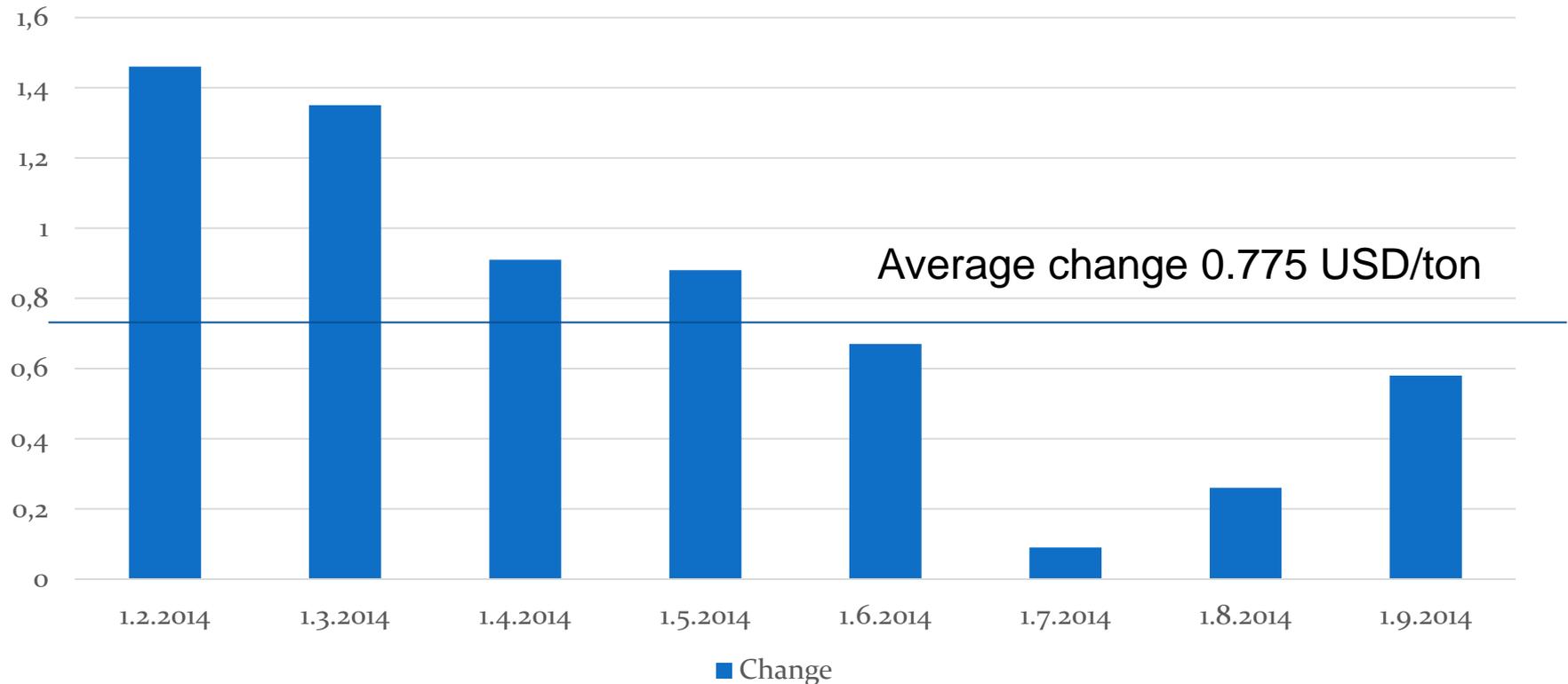
N B S K		S E L L E R S		Price points	B H K P		S E L L E R S		Price points
over	1 125 000	tons	10		over	1 125 000	tons	10	
up to	1 125 000		8		up to	1 125 000		9	
up to	925 000		7		up to	850 000		8	
up to	675 000		6		up to	650 000		7	
up to	475 000		5		up to	475 000		6	
up to	325 000		4		up to	325 000		5	
up to	200 000		3		up to	200 000		4	
up to	100 000		2		up to	100 000		3	
up to	50 000		1		up to	50 000		2	
					up to	25 000		1	
N B S K		B U Y E R S		Price points	B H K P		B U Y E R S		Price points
over	500 000	tons	10		over	600 000	tons	10	
up to	500 000		9		up to	600 000		9	
up to	350 000		8		up to	400 000		8	
up to	250 000		7		up to	325 000		7	
up to	175 000		6		up to	250 000		6	
up to	125 000		5		up to	200 000		5	
up to	85 000		4		up to	150 000		4	
up to	55 000		3		up to	100 000		3	
up to	32 500		2		up to	50 000		2	
up to	15 000		1		up to	25 000		1	



## Simulation of the new weighting procedure

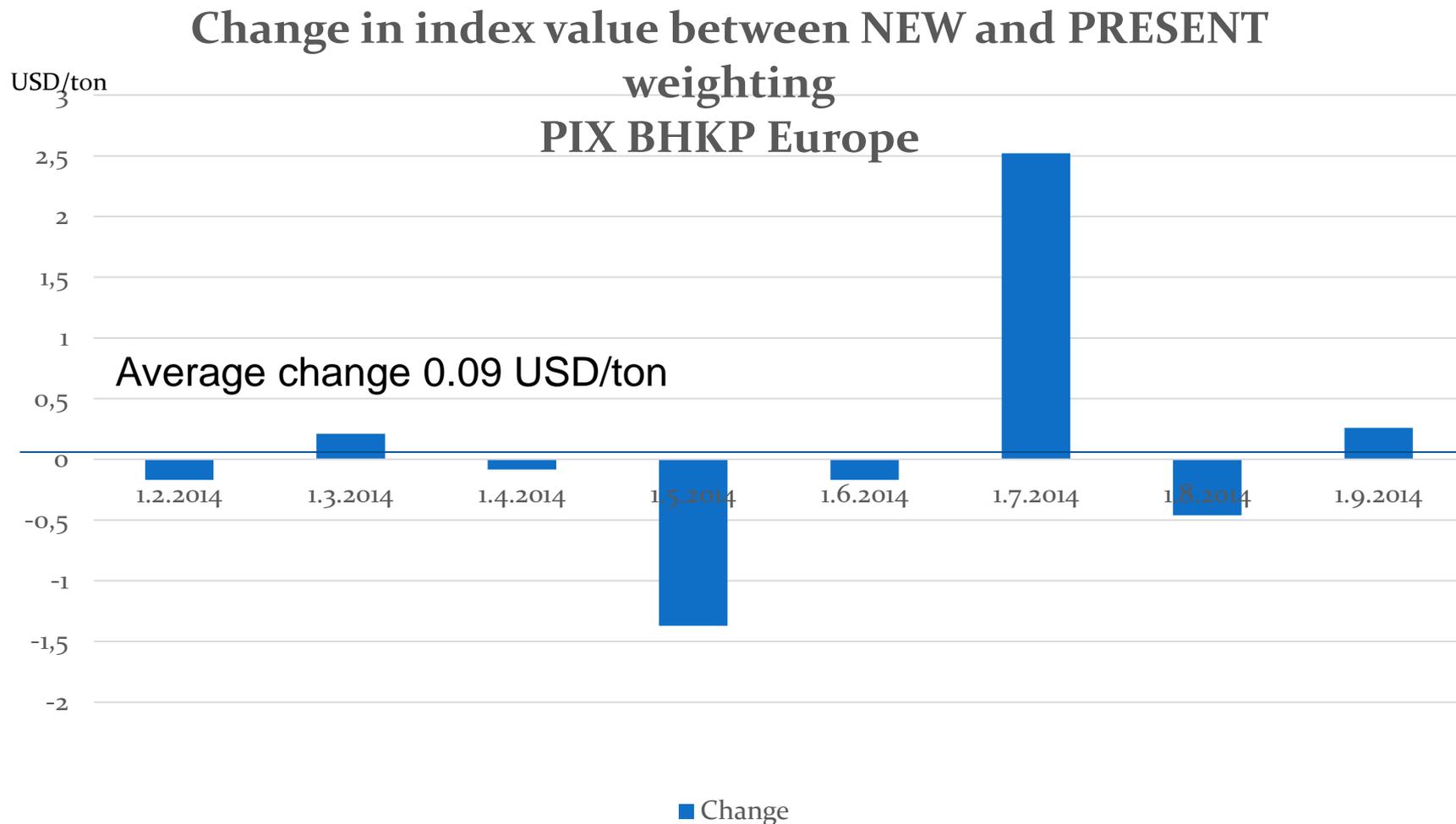
### Change in index value between NEW and PRESENT weighting PIX NBSKP Europe

USD/ton





## Simulation of the new weighting procedure

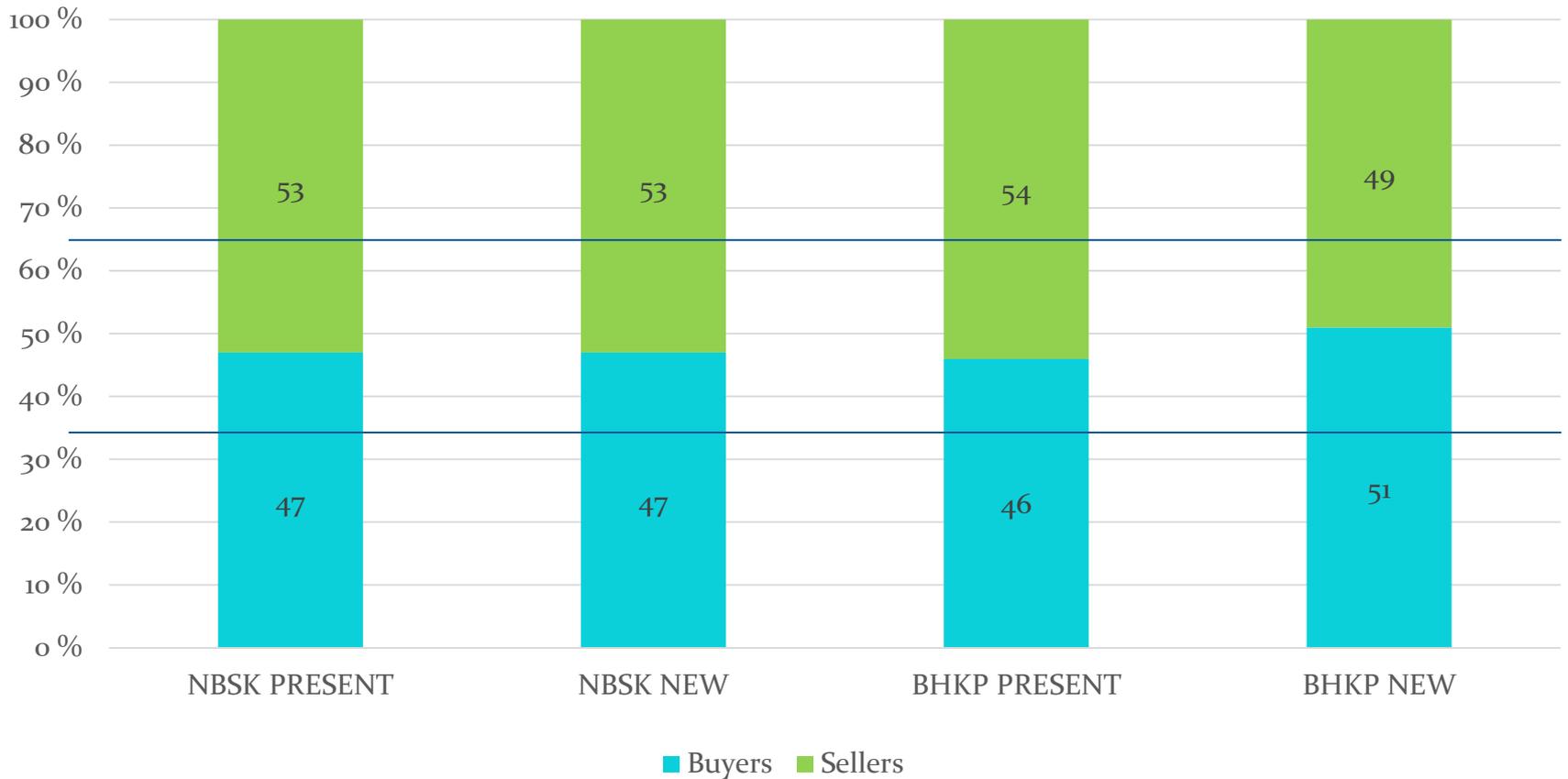


Simulation of the new weighting procedure

# Average balance of price points between buyers and sellers

USD/ton

## 1<sup>st</sup> PIX of February – September 2014

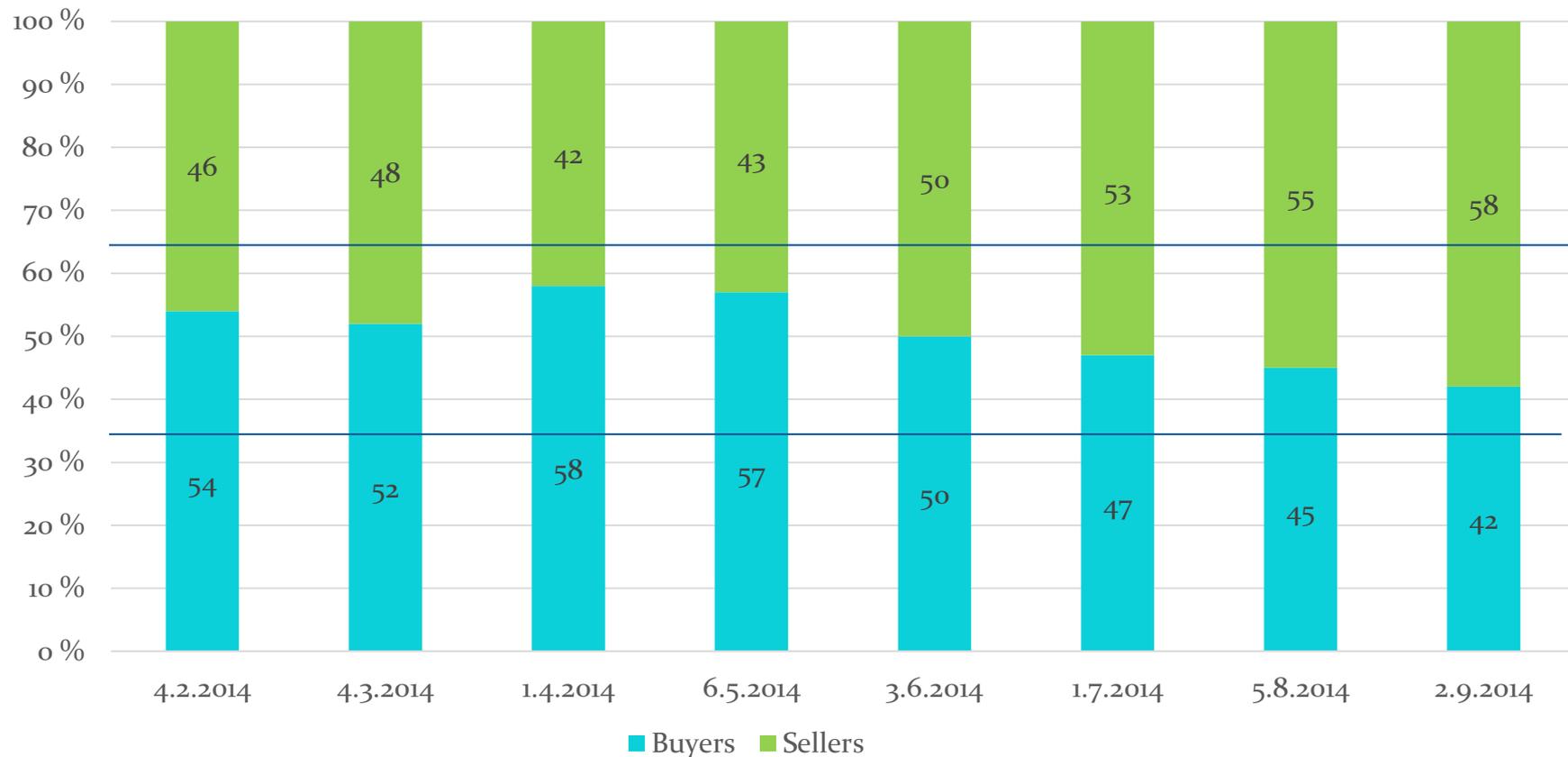




## Simulation of the new weighting procedure

# Balance of price points between buyers and sellers PIX BHKP Europe – NEW weighting

USD/ton





# Auditing

- **Annually**, a number of **randomly selected price data providers**, including an equal number of buyers and sellers, **shall be audited**
- **The audit objective** is to evaluate that the pulp price information submitted to FOEX by the data provider **complies with the methodology and specifications, as agreed in the data provider agreement.**
- **If a price provider audited is found not to have followed the rules**, they will be required to change their practice to be according to the rules. Furthermore, such price provider will be **audited anew within the next 12 months** to make sure the required changes have been made. If false reporting is found to continue, the company **can be disqualified as a price provider.**
- The calculation procedure and follow-up of the methodology at **FOEX will be audited at least once every five years.**



## Next steps

- **Receiving final comments from UTIPULP / EUROPULP / EPIS / Auditors / other stakeholders -> Finalizing the document**
- **Price data provision agreements**
- **Publishing the new rules during week xx / valid from xx**
- **Auditing (instructions, agreement with the auditor), once revised specifications have been taken in use**



## Other news

- **Greetings from NOREXECO**
- **17 September 2014, Kongsvinger, Norway – The Norwegian Ministry of Finance has given NOREXECO ASA a license to operate as a regulated market exchange. NOREXECO plans to open up for trading before the end of 2014 and will become the world's first and only dedicated exchange for pulp and recycled paper.**



**THANK YOU – ALL OF YOU!**



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