



**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

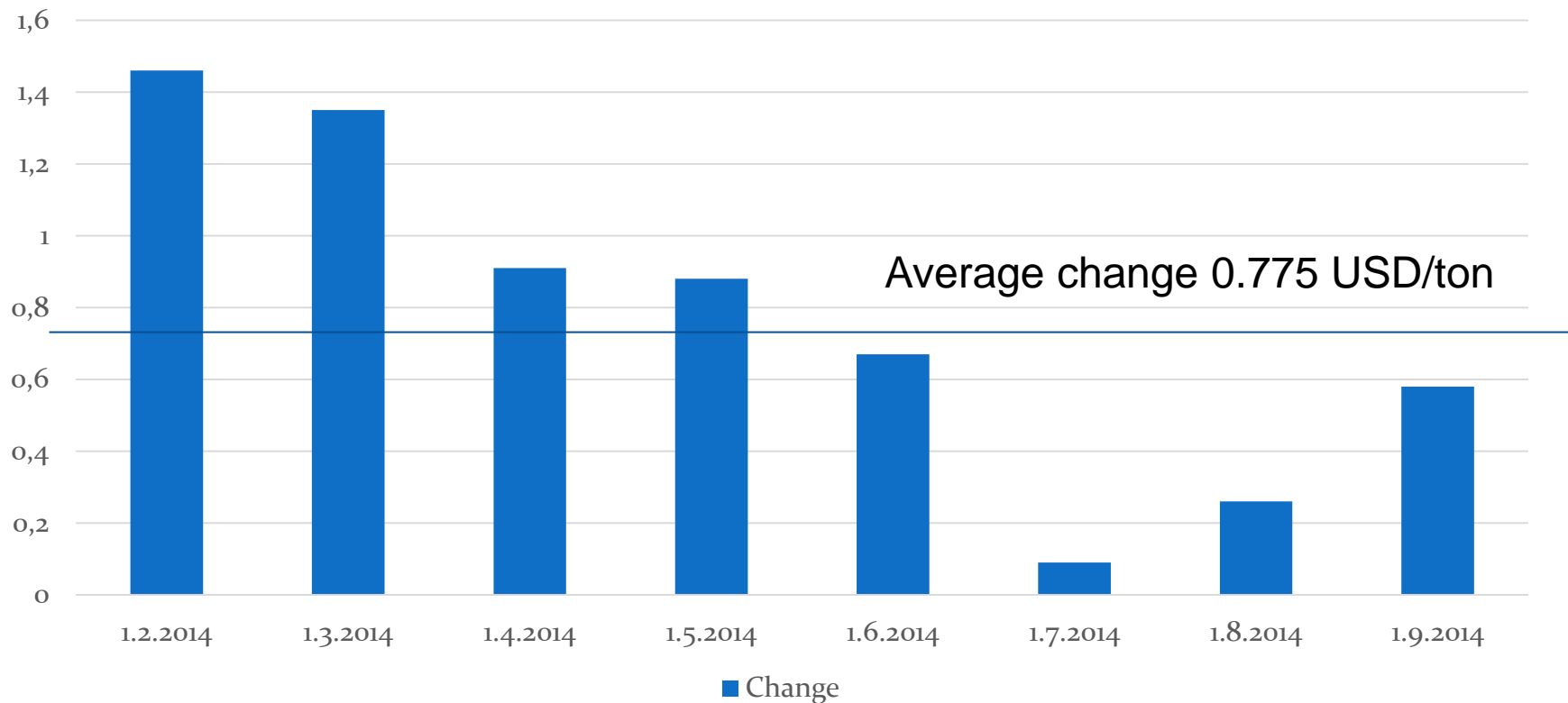
N B S K	S E L L E R S		Price points				B H K P	S E L L E R S		Price points
over	1 125 000	tons	10				over	1 125 000	tons	10
up to	1 125 000		8				up to	1 125 000		9
up to	925 000		7				up to	850 000		8
up to	675 000		6				up to	650 000		7
up to	475 000		5				up to	475 000		6
up to	325 000		4				up to	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

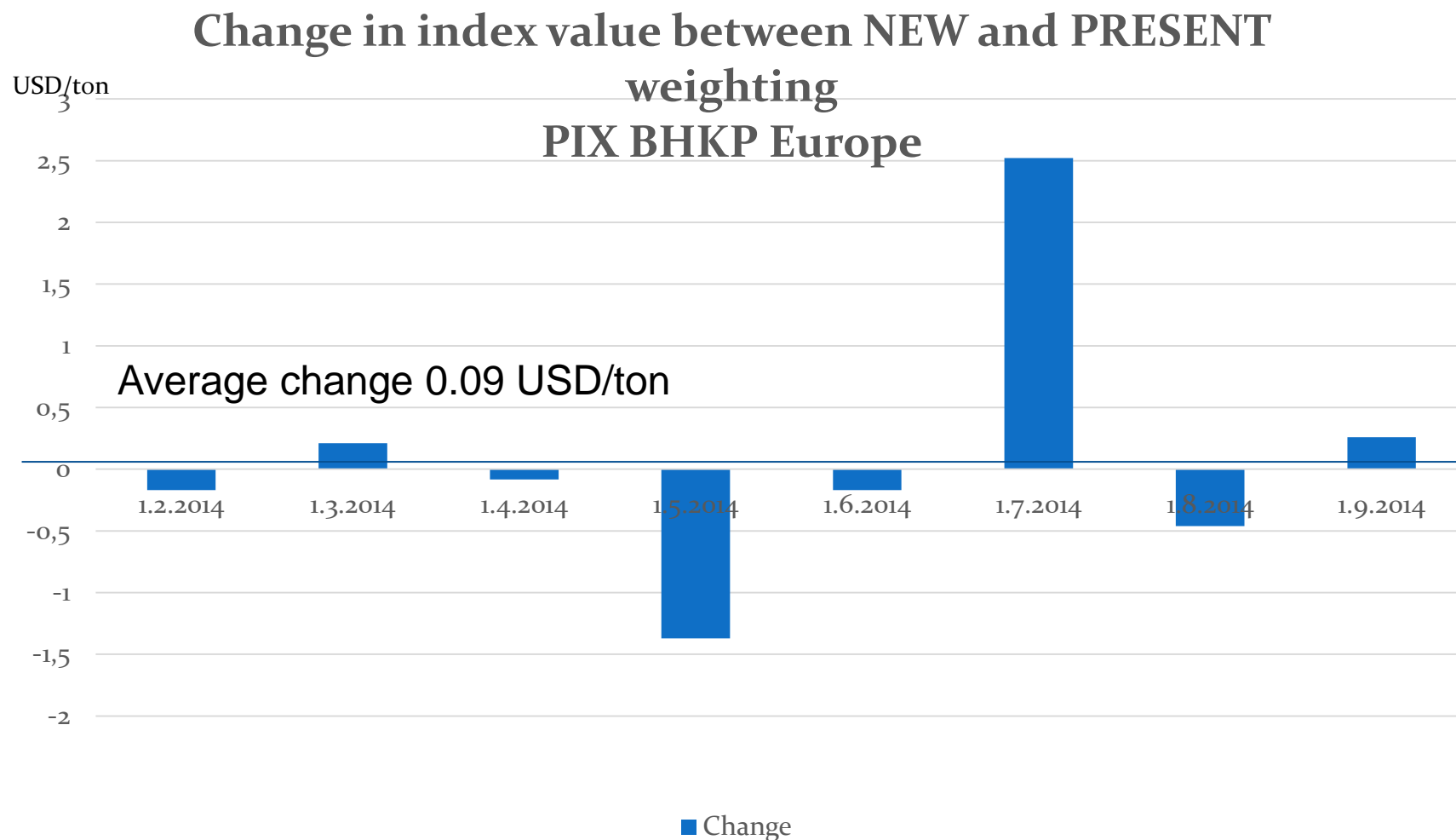
Change in index value between NEW and PRESENT weighting PIX NBSKP Europe

USD/ton





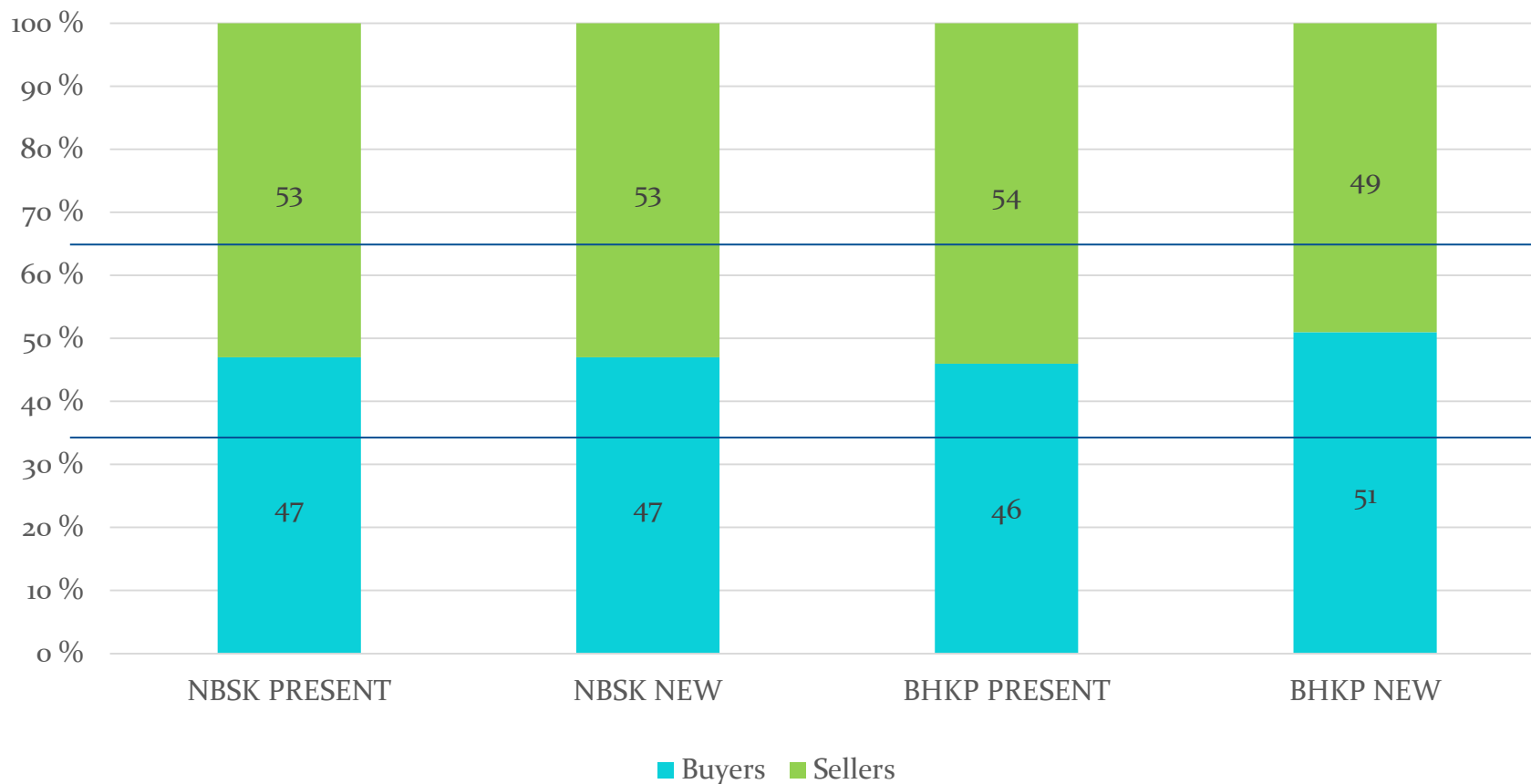
Simulation of the new weighting procedure



Average balance of price points between buyers and sellers

USD/ton

1st PIX of February – September 2014

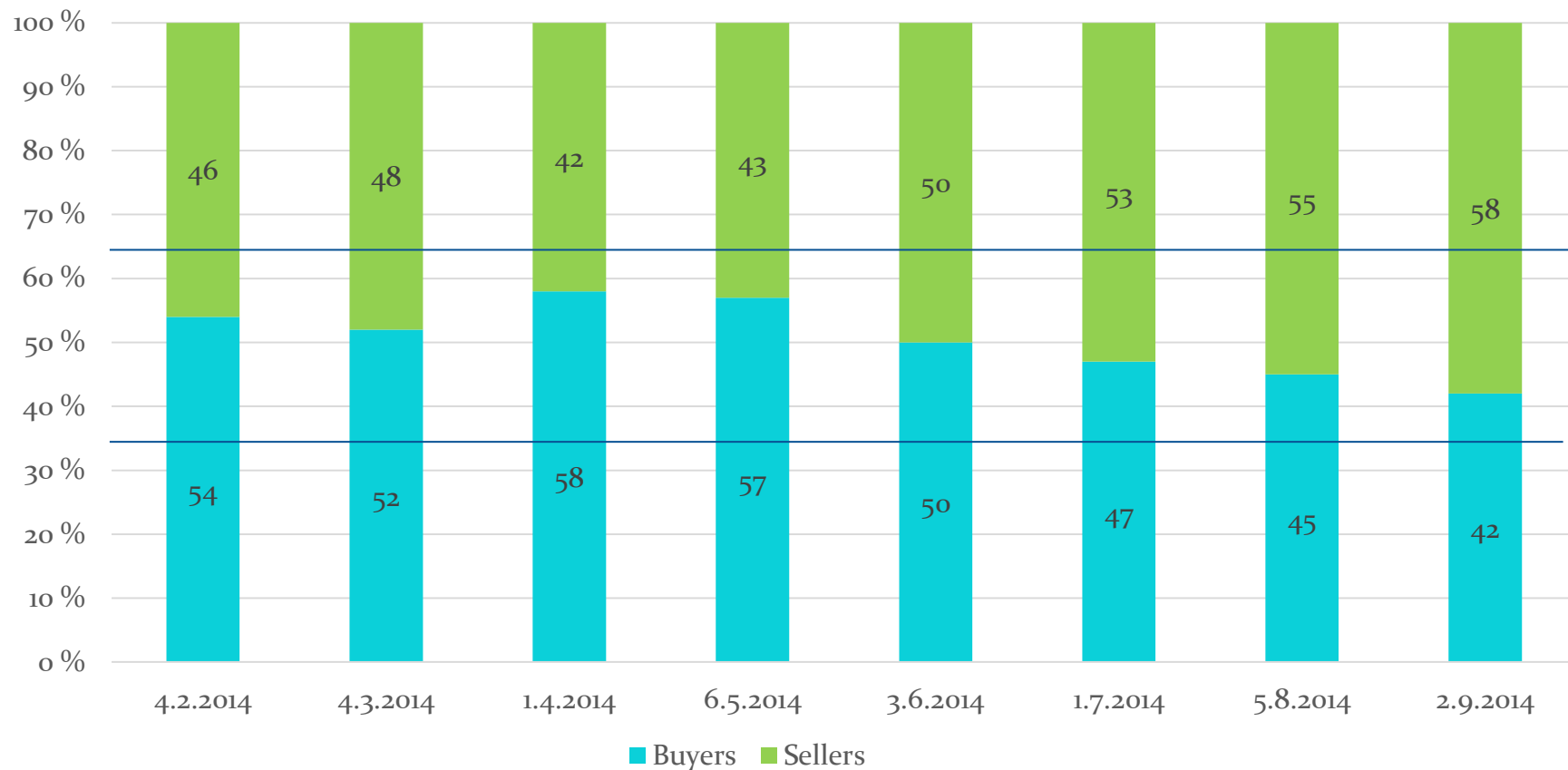




Simulation of the new weighting procedure

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**.



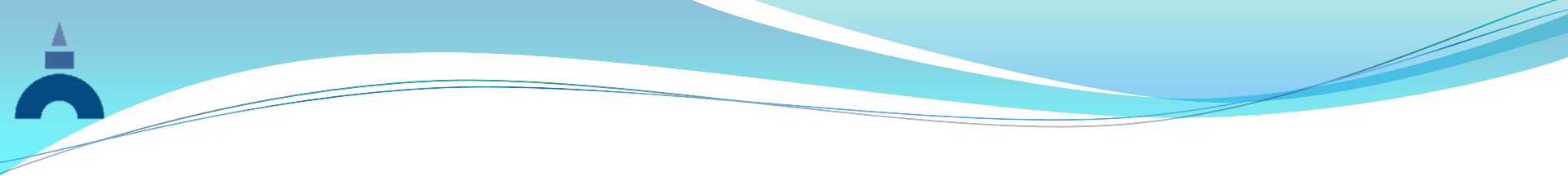
Next steps

- **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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