

**LME POLICY ~~AND GUIDELINES REGARDING~~ ON THE APPROVAL OF  
GOOD LOCATIONS AS DELIVERY POINTS, REVISED 7 JULY 2014 [ ]**

**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 <sup>capacity</sup> 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.~~

~~(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 ~~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](http://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](http://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.

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