

INTRODUCTION

1. This paper proposes to amend the GDT Trading Event Rules to enable multi-seller pools to be established on GDT Events.
2. The GDT Events Oversight Board has reviewed the proposal and supports its publication for feedback from stakeholders. In parallel, we will be finalising the legal reviews on any anti-trust compliance requirements that need to be met.
3. The paper outlines the concept of the US multi-seller pools, including a summary explanation of the proposed changes to GDT Trading Event Rules.
4. The first application of these rules is expected to be for US lactose products.

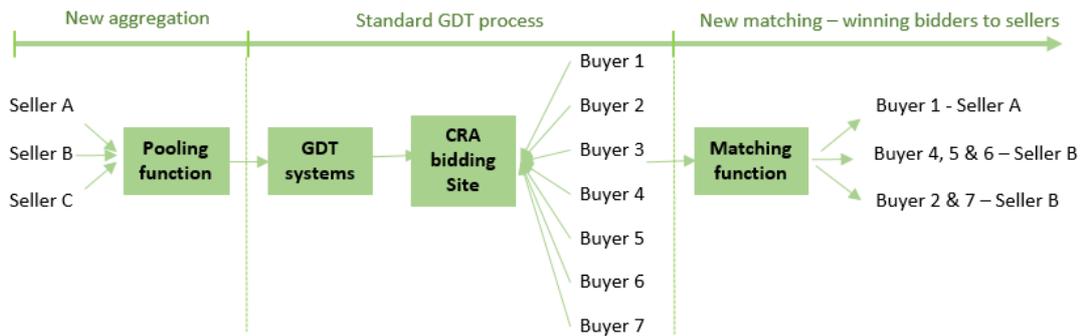
BACKGROUND

5. One of the most consistent themes in feedback we receive from buyers is that they would like to see more sellers and more products offered on GDT Events.
6. A recent survey of US dairy companies also found a widespread requirement for better price discovery mechanisms for certain US dairy products, and a willingness to explore the use of GDT Events to fulfil this requirement.
7. However, a barrier to sellers joining GDT has been concern over the visibility of their individual supply data and lack of confidentiality in their participation in particular Trading Events.
8. GDT has developed the concept of a multi-seller pool to address these concerns while retaining the core purpose of price discovery for the platform. A number of US dairy processing companies have indicated willingness to participate with lactose as the first product.

OVERVIEW OF MULTI-SELLER MODEL

9. Success of the multi-seller pool concept will require each participating seller to commit to offering a minimum quantity of product per year, but not necessarily to participate in each Trading Event.
10. Each seller must be prepared to trade at least one of a range of standard lactose specifications using a standard supply agreement and with a limited choice of payment terms.
11. For each Trading Event, each seller will independently and privately decide their offer quantity after viewing the relevant starting prices that have been auto-calculated by GDT.
12. Each bidder will place bids on specifications relevant to them without knowing the specific seller, but knowing the identity of all participating sellers, and with assurance that all products within the pools have achieved an independently verified quality certification and are produced from USDA approved plants.
13. Shortly after close of the Trading Event, GDT will match winning bidders to specific sellers and communicate the results to all parties; and contracts will be executed in the current manner.
14. Figure 1 shows that the multi-seller pools will be established initially without any change to the operation of Trading Events. This will be achieved by adding two new functions to be undertaken by GDT:
 - a. A pre-event pooling function to aggregate individual seller supply data into pooled quantities for submission to the Trading Manager;
 - b. A post-event matching function that allocates bidders and their winning quantities to specific sellers within the pool.

Figure 1: Addition of two new functions to standard GDT process

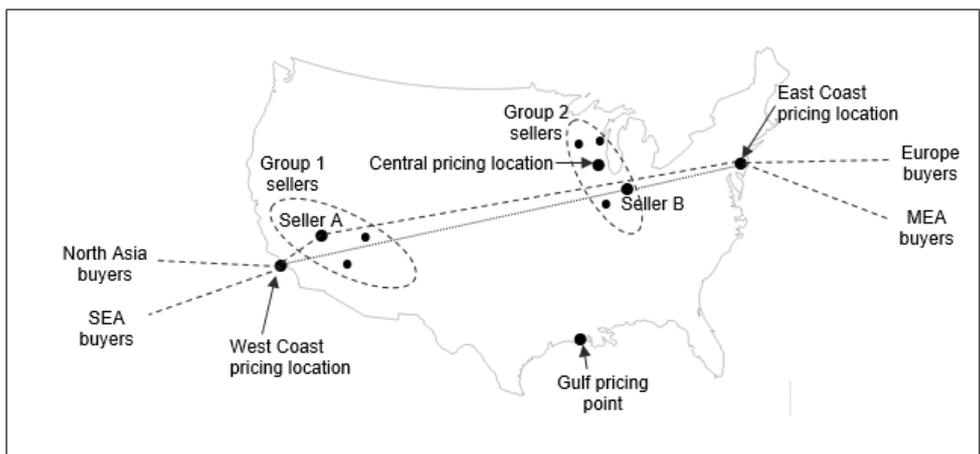


Event cycle

1. GDT provides auto-calculated starting prices to each seller	2. Each seller individually & privately provides their pre-event information to GDT	3. GDT enters pooled pre-event data on seller portal	4. Bidding site displays offerings under 'US Pool' with no individual seller identified
5. Bidders submit bids on products as usual	6. Auction system determines bidders' winning quantities of 'US Pool' products as usual	7. GDT allocates winning bidders to specific sellers	8. Each seller executes contract directly with their allocated winning bidders

11. The pool structure has been designed to account for significant differences in the freight costs that result when sellers are spread across different locations and/or when shipments may transit through different departure ports.
12. Taking account of these differences is essential to ensure bidders can estimate their total landed cost at destination while also ensuring sellers achieve the equal net return irrespective of shipment route.
13. Figure 2 below illustrates how our design achieves this through two mechanisms:
 - a. By establishing several pricing locations so that different freight costs may be reflected by the same product having different prices in different locations - similar to USDA Dairy Market News which reports prices for West, East and Central;
 - b. By creating regional seller pools in such a way as to account for most of the variations in domestic freight cost among sellers, while preserving the anonymity of individual sellers.
14. The model will work as follows:
 - a. Each participating seller will join one of two US seller pools according to the location of their relevant processing plant (a seller can be part of more than one seller group);
 - b. The pools may have up to four pricing locations to reflect standard shipping points: West (Oakland), Central (Minneapolis), East (Philadelphia) and Gulf (Houston).

Figure 2: US seller pools and multiple pricing locations



15. To avoid a proliferation of product listings offered at multiple pricing locations and seller pools, GDT is considering whether to simplify the bidding screen for bidders by setting their default screen preferences so that each bidder views only the product specs and pricing locations relevant to them.
16. For example, a North Asia buyer may be interested to bid on a single product specification with FAS price at the West Coast pricing location. A bidder will be able to adjust their screen preferences as desired.

PUBLISHED INFORMATION

17. The following static information will be published on the GDT public website:
 - a. The name of each participating seller;
 - b. The modified Participation Agreement and other associated documents establishing the pool;
 - c. The common set of supply terms applicable to all buyer/seller transactions;
 - d. One set of product specification documents applicable to all participating sellers;
 - e. An explanatory paper that describes how the multi-seller model works, including methodologies for the calculation of starting prices, aggregation of seller supply quantities, and the matching of winning bidders to participating sellers.
18. Five days prior to each Trading Event, buyers will be able to view the pre-event data relevant to the pools as per current practice.
19. Sellers will be provided with pre-event data, where this data has been aggregated or averaged by GDT.
20. Following each Trading Event, GDT will publish all specification prices per pricing location as an average for the pools, i.e. published winning prices will be an average across the seller pools.

PROPOSED CHANGES TO THE TRADING EVENT RULES

21. We propose to establish the multi-seller pool design in the GDT Trading Event Rules by adding a new Section D, leaving the current Sections A – C largely unchanged (with some exceptions).
22. All rules in Sections A – C will apply to pool participants unless specified otherwise in Section D.
23. The new rules are designed to be generic where possible, to allow for some operational flexibility during the early phases of the pool's implementation. We expect some rules may need updating once the successful operating model has been fully tested.
24. Proposed rule changes are as follows:

Participation rules

25. The rule prohibiting collusion between participants has been amended to specifically prohibit collusion between sellers within the pool (Rule A3.2b). The operating model is designed to ensure that no communication between sellers is required, and this rule reinforces that such communication should not occur.
26. GDT will advise the Oversight Board and the Trading Manager of any new multi-seller pools that it proposes to establish (Rule B4.6i)
27. The multi-seller pool will be open to all US sellers who are prepared to offer a minimum quantity per year, and can fulfil other acceptance criteria published by GDT to give bidders confidence in bidding on anonymous product (Rule D1.2).
28. GDT will publish the names of participating sellers (Rule D1.3).
29. GDT can terminate or suspend the pool or a seller group if it considers the pool is no longer commercially viable (Rule D1.5), and it can consider any participating seller in default of the rules if the seller no longer fulfils the published acceptance criteria (Rule D1.4).
30. GDT will publish a standard supply agreement, generic specifications, average domestic freight rates and other key data (Rules D1.6 & D1.7).

Pre-Event rules

31. The rules relevant to the pre-event process are similar to the current GDT Events operation except that GDT, in its role as aggregator, will apply averaging calculations to each seller's submitted data to provide a single set of bidding conditions for each bidder, including:
 - a. Contract period bid limits to be set for each bidder (Rule D2.1);
 - b. The potential application of product restrictions, where necessary (Rule D2.2);
 - c. The determination of insurance, domestic and international freight charges, averaged across sellers within each seller group, that will apply for each bidder (Rule D2.3);
 - d. Any additional charges that might apply (Rule D2.4).
32. The rules stipulate that no forecast information will be provided. This reduces anti-competition compliance risk relating to the potential for GDT to be perceived as acting as a conduit between sellers (Rule D2.7).
33. GDT will determine the starting prices as an (auto-calculated) discount from the previous Trading Event winning prices and incorporating product specification premiums and domestic freight charges (Rule D2.8).
34. Based on these starting prices, sellers will independently and privately determine the supply quantity they wish to offer (Rule D2.10).
35. To avoid displaying seller data to participating sellers, each seller will be offered a free subscription to GDT Insight in lieu of access to the Bidding Website (Rule D2.13). GDT Insight will enable each seller to follow the progress of each Trading Event at an aggregated level.

Post-Event rules

36. Following closure of the Trading Event, GDT will complete the matching process and communicate with winning bidders and sellers the details of quantities won (Rule D3.3).
37. GDT will publish the methodology used in the matching algorithm (Rule D3.5).
38. GDT will publish data on average winning prices and aggregated sold quantities via the public website and GDT Insight service (Rule D3.6).
39. The detailed wording of the above proposed changes is available in the accompanying marked up version of the GDT Trading Event Rules.

SUBMITTING FEEDBACK

40. GDT invites feedback from any interested party on these proposed changes.
41. Submissions must be emailed in writing to help@globaldairytrade.info with the subject line: Feedback on Multi-seller pools.
42. Submissions close on 28th July 2017.
43. Feedback received will be collated and represented to the GDT Events Oversight Board for their review prior to voting on the proposal.
44. If adopted, the new rules will become effective within 7 days of the vote.