

INTRODUCTION

1. A number of leading US dairy producers have pooled supply of high quality food-grade Lactose to offer on GDT Events, trading to registered bidders from around the world in order to discover a credible market price for their products.
2. The service was established following consultation with US dairy buyers and sellers, and with support of the GDT Events Oversight Board who voted in August 2017 for a series of changes to the Trading Events Rules that enabled the model to be introduced.
3. This paper provides an overview of how the US Lactose pool works, and can be read in conjunction with the GDT Trading Event Rules (Part D and other relevant sections) which outline the rules that apply to all participants of the multi-seller pool.

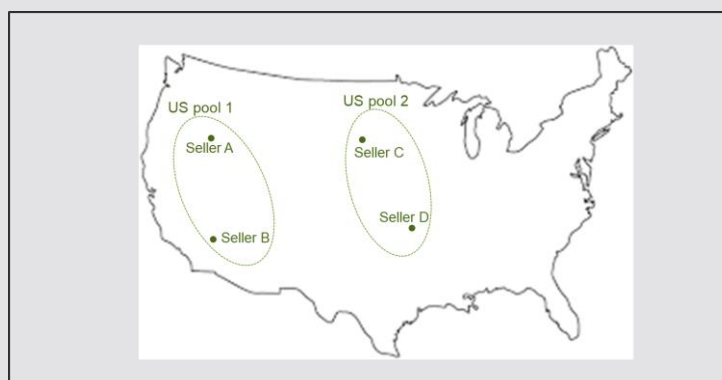
PRODUCTS ON OFFER

4. Food-grade lactose is available from the US seller pool as standardised specifications in three different mesh sizes: Mesh 40, Mesh 100 and Mesh 200, sold in 25kg bags or 1000kg totes, as detailed in the product information files published on the GDT website.
5. Product is supplied from one of several identified plants across the USA. Each plant is approved by the applicable state and federal agencies (USDA, FDA) and meets 3-A standards. Supplying plants are also be subject to SQF (Safe Quality Foods) Level 3 certification, audited by 3rd party companies.
6. Interested bidder choose which of these mesh sizes suits their requirements. If needed, bidders can request samples for testing within your application.

SELLER POOLS

7. Due to the large geographic distances across the United States, sellers are grouped into two pools, each of which offer identical lactose products on GDT Events. These pools are named US Pool 1 and US Pool 2.

Figure 1: Seller pools



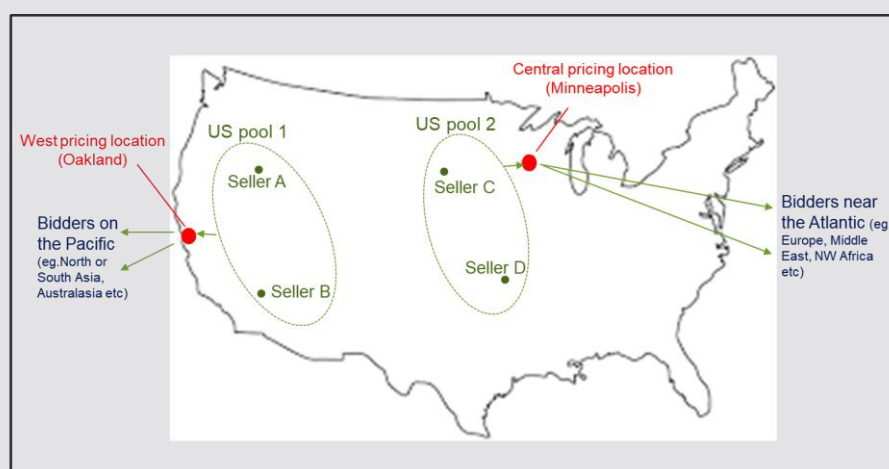
8. As illustrated in Figures 1 & 2, the pools are necessary to ensure each seller ships product most efficiently via the closest port of departure, and they allow the effective averaging of domestic freight charges included in the FAS starting price.
9. Assuming a bidder is given eligibility, they can bid on product from either US Pool 1 or 2 (or both), knowing

that all products will meet the same specification.

PRICING LOCATIONS

10. To minimise freight charges to buyers located in different parts of the world, products are offered for shipment from two ports of departure:
 - 10.1. West – Oakland
 - 10.2. Central - Minneapolis
11. These are referred to as “pricing locations” as the FAS price of product offered from these locations includes the average cost for freight for moving the product from the seller to this port.
12. Sellers in US pool 1, closest to the West coast, will offer their products from their nearest pricing location: West. Likewise, sellers within US pool 2 will offer their products from the Central location.

Figure 2: Pricing locations



13. Buyers can choose which pool to bid on, and therefore which location to ship from, and the pricing will reflect the differences in freight rates from each pool.
14. Thus the starting prices for products offered at each location may differ to reflect the different US domestic freight rates included in the FAS prices.

OFFER QUANTITIES, STARTING PRICES AND OTHER PRE-EVENT DATA

15. Starting prices are determined by GDT, using a calculation based on a deduction from the previous Trading Event's closing prices, factoring in premiums for higher value specifications and differentials in average domestic freight charges
16. As is the case for non-pooled sellers, each participating seller determines the quantity of Lactose they wish to offer prior to each Trading Event.
17. GDT aggregates the offer quantities of each seller, and determines the total offer quantity available from each US Pool.
18. Sellers determine contract period bid limits for each bidder. GDT aggregates this information and sets bid limits and eligibility for each bidder on behalf of each US Pool such that no seller will be required to exceed the limits they have set.
19. Sellers provide freight rates, which GDT averages across the relevant US Pool and provides to bidders to assist in their calculation of a fully-delivered price.
20. Sellers also determine which of two payment terms they wish to apply to each bidder (open account 30 days or letter of credit). GDT then applies the more restrictive of whichever term has been selected by sellers within each US Pool.

THE BIDDING SCREEN

21. The Bidding website displays US Lactose products in the same way as other products, as shown in the example in Figure 3.
22. Each product is offered with the following elements:
 - 22.1. Mesh size
 - 22.2. US Pool
 - 22.3. Location.

Figure 3: US Lactose shown on the GDT Bidding Website (showing US pool 2 only)

The screenshot shows the GDT EVENTS bidding interface. At the top, it says 'Round 1 Is: OPEN' and 'Round 1 Closes In: 01:47:29 (hh:mm:ss)'. The user is 'demo1002' and the current time is '27-Dec-2017 20:12:31'. The interface includes a navigation bar with links like 'Pre-Event Info', 'Trading Status', 'Demand Indicator', 'Messages', 'Submit Bid', 'Trading Schedule', 'Results', 'Auto-Bid', 'Preferences', and 'Help'. Below the navigation bar, it states 'Round 1 Closes at 27-Dec-2017 22:00:00 (GMT)' and 'Round 1 is open. Please click "Submit Bid" to enter your bid quantities.' The duration of the round is 150:00 mm:ss, and the duration between rounds is 30:00 mm:ss. A message indicates that 'demo1002 is eligible to submit a bid on up to a total of 6,800 MT.' Below this, there are buttons for 'Submit Bid and Continue' and 'Cancel'. The main table displays bidding opportunities for US Lactose products across six contracts (Feb18 to Jul18). The products listed are LAC Food-M40, LAC Food-M100, and LAC Food-M200, all from US Pool 2 - Central. The table shows the bid quantity in MT and the price in USD/MT FAS for each contract.

	Feb18 (Contract 1)		Mar18 (Contract 2)		Apr18 (Contract 3)		May18 (Contract 4)		Jun18 (Contract 5)		Jul18 (Contract 6)	
	Bid (MT)	USD/MT FAS	Bid (MT)	USD/MT FAS	Bid (MT)	USD/MT FAS	Bid (MT)	USD/MT FAS	Bid (MT)	USD/MT FAS	Bid (MT)	USD/MT FAS
LAC Food-M40 US Pool 2 - Central			0 @ \$380									
LAC Food-M100 US Pool 2 - Central			0 @ \$425									
LAC Food-M200 US Pool 2 - Central			0 @ \$470									

23. Assuming they are granted eligibility from both pools, bidders can submit a bid on any of the specifications in the usual way, following their assessment of which offering provides the best value to you.
24. Bidders will not know the identity of the seller when submitting their bid, but they will know that the lactose they win will be provided by one of the top US ingredients' producers.

MATCHING SUCCESSFUL BIDS TO SELLERS

25. Immediately after the Trading Event has closed, GDT matches winning bidders to sellers using a matching algorithm.
26. The matching algorithm seeks to minimise overall freight charges and the number of instances where purchases are split between sellers, within the constraints of sellers' offer quantities and bidders' winning bids.
27. Successful bidders receive an email from GDT shortly after the trading event has closed, confirming the details of their purchase and the seller who will ship product to them.
28. Sellers are also provided with the details of the bidders they have been matched with, and the shipments are then arranged directly between the bidder and the seller as per current practice.