合约交易操作手册

Pulp Futures Contract Trade Operations Manual

2018版

上海期货交易所
SHANGHAI FUTURES EXCHANGE

Pulp Futures Contract Trade Operations Manual

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Contents

Overview of Pulp Varieties

Definition and Classification of Pulp

Pulp, a major raw material of the papermaking industry, is a fibrous material obtained through various processes from plant fibers.

By source material, pulp can be classified into **wood pulp**, non-wood pulp, and waste paper pulp. Wood pulp refers to pulp derived from wood source through chemical or mechanical means or a combination of the two. **Non-wood pulp** refers to pulp produced from non-wood fiber sources such as bamboo and grass. Lastly, approximately 30% of the world's paper products can be recycled into secondary fibers, the pulp produced from which is referred to as the **waste paper pulp**.

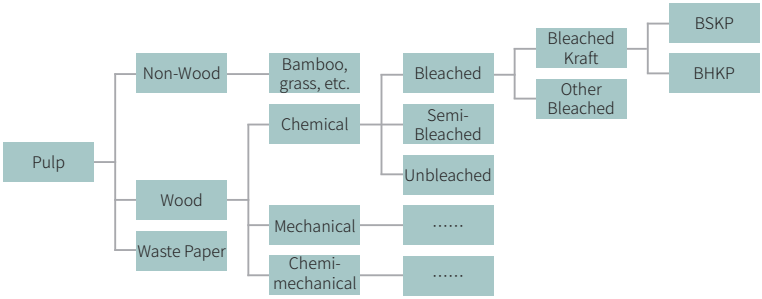
By processing technology, **wood pulp** can be further classified as **chemical pulp, mechanical pulp**, and **chemi-mechanical pulp**. Chemical pulping separates fibers from lignin through a chemical process such as the sulfate (or "kraft") process or the sulfite process; mechanical pulping accomplishes the same through a mechanical process such as stone groundwood (SGW) pulping, refiner mechanical pulping, and thermo-mechanical pulping. By degree of bleaching, chemical pulp can be further classified as bleached pulp, semi-bleached pulp, and unbleached pulp. By convention, a specific type of pulp is usually named after its various classifications – bleached softwood kraft pulp, bleached hardwood kraft pulp, unbleached reed sulfite pulp, poplar SGW pulp, for example – so that users will have a general idea about its performance and application by the name alone.

Trees can be broadly categorized into conifers and broadleaf trees; accordingly, wood pulp has two principal types: **softwood pulp** and **hardwood pulp**. The former is pulp produced from conifers, like larix gmelinii (Dahurian larch) and picea asperata (dragon spruce), which in general have needle-like leaves and are a softer material. Predominantly growing in higher latitude regions such as North America, Russia, and Southern Chile, conifers are characterized by extended growth cycle (20-25 years), long fiber length, and light-colored cores. Paper made from softwood pulp has high tensile strength, great suppleness, and low bursting strength.

Hardwood pulp is mainly produced from fibers from broadleaf trees, like eucalyptus and birch, which tend to have wide, flat leaves and higher core strength. It is this strength that gives rise to the name "hardwood." Most commonly seen in lower latitude regions such as Southern U.S., Brazil, Northern Chile, and Indonesia, broadleaf trees are distinguished by short growth period (3-5 years) and fiber length. Paper produced from hardwood pulp usually has a low strength, loose texture, larger absorptive capacity, and high opacity.

Currently, bleached softwood kraft pulp ("BSKP") and bleached hardwood kraft pulp ("BHKP") are the two mainstream pulps on the market. The detailed classification of pulp is shown in Figure 1.

Figure 1: Classification of Pulp



Common BSKP Brands

Most of the common BSKP brands in China are foreign, coming from Canada, U.S., Chile, Russia, and Finland. Specifically, these Canadian brands include Northwood, Celstar, Cariboo, Harmac Pacific, Catalyst Crofton, and Howe Sound; U.S. brands include Alabama and International Paper; Russian brands include UST- Ilimsk and Bratsk; Finnish brands include UPM Conifer; and Chilean brands include Arauco and Pacifico. "Sanzhen" from Yunnan Yunjing Forestry & Pulp represents one of the largest domestic brands. The largest foreign BSKP brands in China are listed in Table 1.

Table 1: Selected Import BSKP Brands

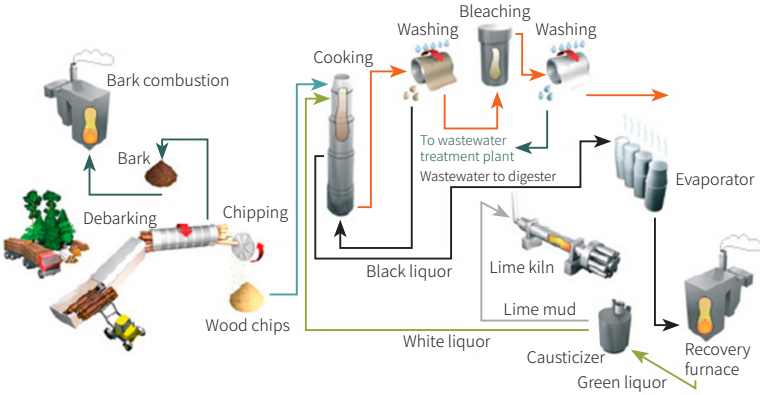
Name	Country of Origin
Northwood, Kamloops, Cariboo, Celstar, Howe Sound, Harmac Pacific, Catalyst Crofton	Canada
UST-Ilimsk, Bratsk	Russia
Arauco, Pacifico	Chile
UPM Conifer, Botnia	Finland
International Paper, Alabama	United States

Manufacturing Process and Uses

1. Manufacturing process

Take BSKP as an example, the pulping process involves procurement, storage, chipping, cooking, washing, screening, bleaching, drying, cutting, and packaging. Specifically, the manufacturer first takes full-length logs and debark and cut them into smaller wood chips. Those passing the screening process are cooked in an aqueous solution of sodium hydroxide (NaOH) and sodium sulfide (Na_2S) for one to two hours. Depending on the concentration of its active chemicals, this cooking liquor may be fortified by recycled cooking liquor to increase efficiency. The cooking process removes lignin from wood, breaking the latter down into cellulose fibers. The "brown stock" produced from the cooking process is then washed and screened to remove chemicals and oversized fragments to yield screened pulp, which, after a multistage bleaching and delignification cycle, is pressed into wet pulp boards for drying. Finally, the dried pulp boards are cut and packaged into bales for delivery. The pulping process is illustrated in Figure 2.

Figure 2: BSKP Pulping Process



2. Functions

Because wood pulp has long fibers, high bursting strength, and high tensile strength, making the finished products highly resistant to folding, bursting, and tearing, it is mostly used to produce the paper stock and paper boards for coated and uncoated printing and writing paper, sanitary paper, and specialty paper base, which are further processed by paper mills into paper products such as books and napkins.

Non-wood pulp has advantages in terms of availability of raw materials, distance to source, and cost, and is therefore frequently used to produce sanitary paper, wrapping paper, and crafting paper such as unbleached bamboo facial tissues and Xuan paper (for Chinese calligraphy).

Waste paper pulp, depending on the quality of its raw materials, can be processed variously into newsprint paper, corrugated base paper, and cardboard paper.

The Pulp, Paper, and Paper Product Market

International Pulp Market

In 2015, the total production of pulp worldwide was 178.77 million metric tons (MMT) , including 135.32 MMT of chemical pulp and 27.77 MMT of mechanical pulp, down 0.18% from the 179.09 MMT of 2014. At 64.31 MMT, North America accounted for 36% of the global production. Europe and Asia produced 43.85 MMT and 39.29 MMT, respectively, representing 24.5% and 22.0% of the global total. The United States (47.76 MMT), Brazil (17.40 MMT), and Canada (16.55 MMT) were the top three producers in 2015.

In 2015, the global apparent consumption of pulp was 179.37 MMT, 0.2% less than the 179.71 MMT of 2014. From a long-term perspective, the global pulp consumption has been fairly stable over the years and is mostly balanced by the global production. Due to the global financial crisis, however, the global consumption fell 1.62% in 2008 and another 7.26% in 2009. The market then recovered in 2010, with consumption growing by 3.35%. In recent years, both the apparent consumption and production have stabilized at around 180 MMT.

In 2017, the world produced 27.44 MMT of BSKP, while the demand was 25.72 MMT. In particular, China's production output was 30,000 metric tons – less than 1% of the global supply – while its consumption level was 8.15 MMT.

China's Pulp Market

According to the China Paper Association, China produced 79.49 MMT of pulp in 2017, registering a year-on-year growth of 0.30%. This total is composed of 10.50 MMT of wood pulp (+4.48% YoY), 63.02 MMT of waste paper pulp (-0.43% YoY), and 5.97 MMT of non-wood pulp (+1.02% YoY).

In terms of consumption, China consumed 2.59% more pulp in 2017 than the year before, reaching 100.51 MMT. This figure includes 31.52 MMT of wood pulp (31% of total domestic consumption), 63.02 MMT of waste paper pulp (63%), and 5.97 MMT of non-wood pulp (6%). In particular, imported pulp accounted for 21% of China's consumption.

Details of pulp production and consumption in China are given in Tables 2 and 3.

Table 2: China Pulp Production 2010–2017 (Unit: MMT)

	2010	2011	2012	2013	2014	2015	2016	2017
Total (MMT)	73.18	77.23	78.67	76.51	79.06	79.84	79.25	79.49
Including: 1. Wood	7.16	8.23	8.10	8.82	9.62	9.66	10.05	10.50
2. Waste Paper	53.05	56.60	59.83	59.40	61.89	63.38	63.29	63.02
3. Non-Wood	12.97	12.40	10.74	8.29	7.55	6.80	5.91	5.97
Reed	1.56	1.58	1.43	1.26	1.13	1.00	0.68	0.69
Bagasse	1.17	1.21	0.90	0.97	1.11	0.96	0.90	0.86
Bamboo	1.94	1.92	1.75	1.37	1.54	1.43	1.57	1.65
Rice and Wheat Straw	7.19	6.60	5.92	4.01	3.36	3.03	2.44	2.46
Others	1.11	1.09	0.74	0.68	0.41	0.38	0.32	0.31

Source: China Paper Industry Annual Report 2017

Table 3: China Pulp Consumption 2012–2017

	2012	2013	2014	2015	2016	2017
Wood	24.5% (22.91)	26.0% (23.78)	27.0% 25.40)	28.0% (27.13)	29% (28.77)	31% (31.52)
Domestic	8.6% (8.02)	9.7% (8.73)	10% (9.52)	10% (9.56)	20% (9.96)	10% (10.40)
Import	15.9% (14.89)	16.3% (15.05)	17% (15.88)	18% (17.57)	19% (18.81)	21% (21.12)
Waste Paper	64.0% (59.83)	64.9% (59.40)	65% (61.89)	65% (63.38)	65% (63.29)	63% (63.02)
Domestic	38.3% (35.78)	38.9% (35.61)	41.0% (39.46)	40% (39.46)	41% (40.21)	42% (43.29)
Import	25.7% (24.05)	26.0% (23.79)	24% (22.43)	25% (23.92)	24% (23.08)	21% (20.63)
Non-Wood	11.5% (10.74)	9.1% (8.29)	8% (7.55)	7% (6.80)	6% (5.91)	6% (5.97)
Total	100% (93.48)	100% (91.47)	100% (94.84)	100% (97.31)	100% (97.97)	100% (100.51)

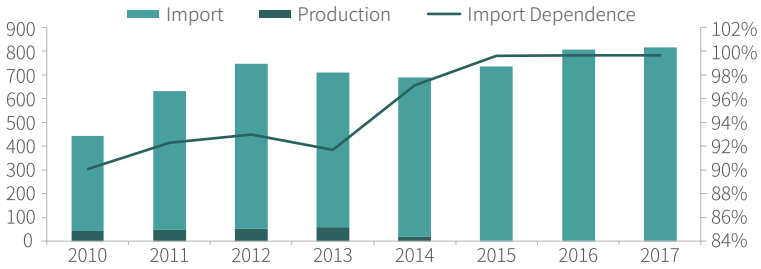
Note: Figures in parentheses are consumption level in MMT.
Source: China Paper Industry Annual Report 2017

China's Pulp Import and Export

In 2017, China imported 23.72 MMT of pulp (including BSKP, BHKP, unbleached pulp, mechanical pulp, and dissolving pulp), rising 12.63% YoY. This gives a monthly import volume of 1.977 MMT, an increase of 0.222 MMT compared with 2016. In the same year, China's pulp export volume rose 3.13%, to 98,700 metric tons. The export price averaged USD 1,364.74 per metric ton, increasing 19.73% from the year before.

In 2017, China imported 8.12 MMT of BSKP (HS code: 47032100), an increase of 80,000 metric tons over the year before, at an average price of USD 642.8 per metric ton. Canada, the United States, Chile, Russia, and Finland were the largest exporters of BSKP to China, together accounting for 7.552 MMT, or 93%, of China's total import. In particular, at 2.545 MMT, Canada alone represented 31.3% of the total. Figure 3 shows the import, production, and import dependence of BSKP of China.

Figure 3: China's Import, Production, and Import Dependence of BSKP (Unit: MMT)



Source: China Customs

China's Paper and Paper Product Market

Characterized by a low concentration ratio, a perfectly competitive market, a large set of related segments, as well as tight correlation with other industries, tremendous market capacity and potential, and a wide range of market players, China's paper industry has become an important growth engine for forestry, agricultural, machinery manufacturing, chemical, automation, printing, and packaging industries.

The National Bureau of Statistics reports that, as of 2017, China had 45 pulp manufacturers above designated size, 2,754 paper-making enterprises, and 3,882 paper product manufacturers. These 6,681 companies recorded a combined revenue of ¥1.5203 trillion from their principal businesses, rising 3.51% compared with the preceding year. During the year, China produced 111.30 MMT of paper and cardboard (+2.53% YoY) and consumed 108.97 MMT (+4.59% YoY). For a population of 1.39 billion, this equates to an annual consumption of 78 kilograms per capita. From 2007 to 2017, the production of paper and cardboard in China grew at a compound annual growth rate of 3.77%; consumption grew at a CAGR of 3.59%. In 2017, the production and consumption of paper products in China fell 5.41% and 5.76% year-on-year, respectively, to 68.01 MMT and 65.13 MMT. Nevertheless, between 2007 and 2017, domestic production of paper products grew at a CAGR of 8.77%; consumption grew at a CAGR of 9.00%.

In 2017, the fastest growing paper products in China were household paper, cardboard paper, and specialty paper. Specifically, improving standard of living has lifted the domestic production and consumption of household paper by 4.35% and 4.22%, respectively. By contrast, newsprint paper plunged in production level due to the rising popularity of electronic media and paperless office. The production and consumption volumes of paper and cardboard are listed in Table 4.

Table 4: China's Production and Consumption of Paper and Paperboard (Unit: MMT)

Type	Production			Consumption		
	2016	2017	YoY (%)	2016	2017	YoY (%)
Total	108.55	111.30	2.53	104.19	108.97	4.59
1. Newsprint paper	2.60	2.35	-9.62	2.65	2.67	0.75
2. Uncoated printing and writing paper	17.70	17.90	1.13	16.89	17.44	3.26
3. Coated printing paper	7.55	7.65	1.32	6.09	6.34	4.11
Including: Coated paper	6.65	6.75	1.5	5.65	5.85	3.54
4. Household paper	9.20	9.60	4.35	8.54	8.90	4.22
5. Wrapping paper	6.75	6.95	2.96	6.89	7.07	2.61
6. Duplex paper	14.05	14.30	1.78	12.65	12.99	2.69
Including: Coated duplex paper	13.45	13.70	1.86	12.05	12.38	2.74
7. Cardboard	23.05	23.85	3.47	23.64	25.10	6.18
8. Corrugated base paper	22.70	23.35	2.86	22.71	23.96	5.5
9. Specialty paper and cardboard	2.80	3.05	8.93	2.25	2.49	10.67
10. Other paper and paperboard	2.15	2.30	6.98	1.88	2.01	6.91

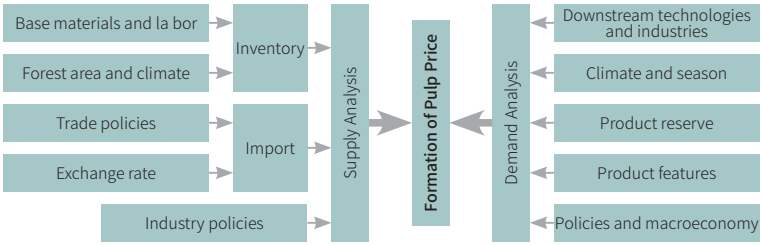
Source: China Paper Industry Annual Report 2017

Factors Influencing Pulp Prices and Price Trend

Major factors influencing pulp prices in China

The pulp supply in China is largely determined by domestic production, inventory, import, and national policies. In particular, production and inventory are further affected by base materials, labor cost, forest area, and local climate conditions; and import volume is swayed by the exchange rate and trade policies. On the demand side, influencing factors include development of downstream technologies and industries, season, product reserve and features, as well as national policies and the macro-economic situation. The interaction between these factors shapes the way the pulp prices fluctuate. Refer to Figure 4 for how these factors influence pulp prices.

Figure 4: Factors Influencing Pulp Prices in China



BSKP Price Trend from 2008 to 2018

Due to limited forest resources, China largely relies on foreign imports for the raw materials for pulp production, and is therefore highly sensitive to global pulp prices. In the wake of the global financial crisis, the price of BSKP fell to below ¥4,100 per metric ton at the end of 2008. It remained at around this level until February 2010, when Chile was hit by an 8.8-magnitude earthquake which devastated the country's pulp supply. The price of BSKP surged to a high of ¥8,000 per metric ton before dropping down to ¥5,800 as supply situation eased. The October 2010 earthquake in Indonesia and neighboring Southeast Asian regions buoyed the price of BSKP once again, to ¥7,300 per metric ton in the first half of 2011, which then settled within the low envelope of ¥4,500-¥5,500 per metric ton due to expanding industrial capacity. Long periods of low prices led to a low days in inventory for BSKP for both papermakers and traders. Between January and July, 2017, China imported 4.68 MMT of BSKP, up 2.79% year-on-year; but this growth rate was still 4.25 and 7.68 percentage points below the level in 2016 and 2015, respectively, resulting in a sizable supply shortage of BSKP in China in the second half of 2017.

In July 2017, the Ministry of Environmental Protection conducted a targeted inspection on several key industries including the paper and steel industries, resulting in the temporary shutdown of a number of mills. To alleviate the effect of supply shortage on downstream products, many paper companies ramped up production, boosting the demand for pulp. On July 18, the General Office of the State Council issued the Implementation Plan on Banning Entry of Foreign Garbage and Reforming the Administrative System of Solid Waste Importation, which strengthened the import control of solid wastes, reduced the range of waste paper permitted for import, and lowered the import quota for waste paper. For context, China consumed 63.02 MMT of waste paper pulp in 2017, 20.63 MMT of which was imported. The import restriction triggered a

substantial fiber shortage which, coupled with the increasingly strained fiber supply due to the coming online of new production capacity, pushed up the paper price (in anticipation of a price increase in raw materials), the capacity utilization rate, and the demand for wood pulp. These factors, amplified by the then low inventory levels and substantial stocking and hoarding in the market over a short time span, caused a number of smaller paper companies to be starved of raw materials, raising the price of spot product further. From July to December, 2017, the price of BSKP surged 48.5% from ¥5,100 to ¥7,575 per metric ton. At the end of this period, increasing clarity on the policies for mixed waste paper and rising import volume enabled the pulp market to gradually absorb the supply shock and cool market speculation, allowing the price to ease back down. As of July 2018, BSKP is priced at ¥6,500 per metric ton, which is ¥1,070 or 14.2% less than the highest point. Figure 5 illustrates the price trend of BSKP between 2008 and 2018.

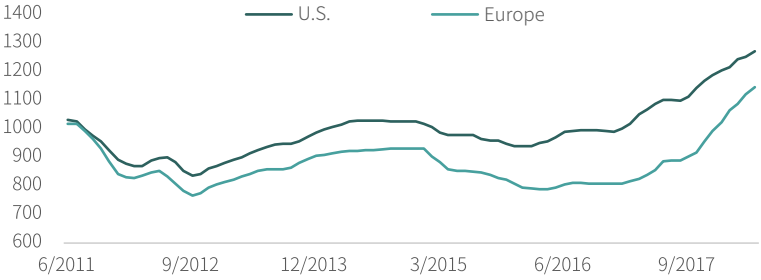
Figure 5: 2008-2018 BSKP Price Trend (¥)

Source: Sublime China Information

Global BSKP Price Trend from 2011 to 2017

According to FOEX Indexes, between January 2011 and April 2018, the price of BSKP in Europe and the U.S. mostly fluctuated between USD 750 and USD 1,300 per metric ton. The overall price trend in the two regions mirrors that in China, albeit showing lower volatility.

Figure 6: 2011-2018 CIF Price Trend of BSKP in U.S. and Europe



Source: FOEX

Pulp Futures Contract

SHFE Bleached Softwood Kraft Pulp Futures Contract

Product	Bleached Softwood Kraft Pulp
Contract Size	10 metric tons/lot
Price Quotation	Yuan (RMB)/metric ton
Minimum Price Fluctuation	2 yuan/metric ton
Range of Price Limit	Within 3% of the settlement price of the preceding trading day
Listed Contracts	Monthly contract of the most recent 12 months
Trading Hours	9:00 a.m. to 11:30 a.m., 1:30 p.m. to 3:00 p.m., and other hours specified by the Exchange (Beijing Time)
Last Trading Day	15th day of the contract month (postponed accordingly if it is a legal holiday in China and subject to separate announcement by the Exchange if it falls in the Spring Festival month or another month specially designated by the Exchange.)
Delivery Period	Five consecutive business days after the last trading day
Grade and Quality Specifications	Bleached softwood kraft pulp, refer to Annex for detailed quality requirements
Delivery Venue	SHFE-designated delivery storage facilities
Minimum Trade Margin	4% of contract value
Delivery Unit	20 metric tons
Settlement Type	Physical delivery
Contract Symbol	SP
Listing Exchange	Shanghai Futures Exchange

Annex to SHFE Standard Bleached Softwood Kraft Pulp Futures Contract

1. Delivery Unit

The contract size for bleached softwood kraft pulp (“BSKP”) futures is 10 metric tons per contract; the delivery unit is standard warrant of 20 air dry metric tons. Delivery must be made in whole standard warrants.

2. Quality Standards

a)The tensile index, burst index, and tear index of physically delivered BSKP should meet or exceed the standards set forth in QB/T1678-2017 Bleached Sulphate Woodpulp for Grade I softwood pulp; dirt count should meet or exceed the standard for Premium (highest listed grade) softwood pulp; D65 brightness should be no lower than 87%.

b)BSKP underlying each standard warrant must be of a certified brand from an SHFE-recognized manufacturer, accompanied by the corresponding certificate of quality.

c)BSKP underlying each standard warrant must comprise genuine pulp of the same brand and manufacturer.

d)BSKP should be delivered in air dry metric tons as measured. Each standard warrant for BSKP should have a maximum weight differential of ±5% and maximum weighing error of ±1%.

e)Each standard warrant should indicate the weight and pieces of products included, and the packaging for BSKP should comply with the rules of the Exchange.

f)Standard warrant for BSKP should be issued by a designated delivery storage facility after inspection and acceptance conducted according to applicable rules.

3. SHFE-Recognized Manufacturers and Brands

No.	Country	Manufacturer	Brand	Chinese Name (for reference)	Mill
1	Canada	Canfor Pulp Ltd.	Northwood	Beimu	Canfor Northwood Pulp Mill
2		Catalyst Paper Corp	Crofton CKBC	Jinshi	Crofton Pulp & Paper Division (of Catalyst Paper Corporation)
3			Crofton CKHFI	Xiongshi	Crofton Pulp & Paper Division (of Catalyst Paper Corporation)
4		Mercer International Inc.	Celstar	Yueliang	Zellstoff Celgar Limited Partnership
5		Cariboo Pulp & Paper Co.	Cariboo	Kailipu	Cariboo Pulp & Paper Co.
6		Nanaimo Forest Products Ltd.	Harmac Pacific	Mapai	Harmac Pacific Mill
7	Finland	UPM-Kymmene Corp	UPM Conifer	Fenou	UPM Pietarsaari Pulp Mill
					UPM Kaukas Pulp Mill
					UPM Kymi Pulp Mill
8	Chile	Celulosa Arauco y Constitución S.A.	Arauco	Yinxing	Nueva Aldea Pulp Mill
					Arauco Pulp Mill
					Valdivia Pulp Mill
9		CMPC Celulosa S.A.	Pacifico	Taipingyang	Pacifico Pulp Mill
10	Russia	Ilim Group Joint Stock Co.	UST-Ilimsk	Wuzhen	Ust-Ilimsk Branch of Ilim Group Joint Stock Co.
11		The Bratsk Branch of Ilim Group Joint Stock Co.	Bratsk	Buzhen	Bratsk Branch of Ilim Group Joint Stock Co.

4. Designated Delivery Storage Facility

No.	Designated Delivery Storage Facility	Office Location	Storage Location	Contact Information	Contact Person	Postal Code
1	Qingdao Port Logistics Co., Ltd.	18 Weisi Road, Qianwangang, Huangdao District, Qingdao, Shandong Province	18 Weisi Road, Qianwangang, Huangdao District, Qingdao, Shandong Province	Landline: 0532-82987596 Mobile: 13468287229 Fax: 0532-82987579	Yan Yan	266550
			90 Tongjiang Road, Huangdao District, Qingdao, Shandong Province	Landline: 0532-82987523 Mobile: 18669708066 Fax: 0532-82987579	Zhao Tianyue	
2	Sinotrans Central China Co., Ltd.	6 Jilongpo Road, Jiaozhou Economic & Technological Development Zone, Qingdao, Shandong Province	1 Wuliu Avenue, Jiaozhou Economic & Technological Development Zone, Qingdao, Shandong Province	Landline: 0532-86769083 Fax: 0532-86912814 Mobile: 18561575666	Xue Lei	266555
				Landline: 0532-86760715 Fax: 0532-86912814 Mobile: 15153205257	Zhang Chao	
3	C&D Logistics Group Co., Ltd.	98 Huaihe East Road, Huangdao District, Qingdao, Shandong Province	98 Huaihe East Road, Huangdao District, Qingdao, Shandong Province	Landline: 0592-5685387 Fax: 0592-5685270 Mobile: 13850096508	Tu Quandong	266000
				Landline: 0592-5685381 Fax: 0592-5685270 Mobile: 13860100065	Chen Lisong	
		333 Yingang Road, Dushangang Town, Pinghu, Zhejiang Province	333 Yingang Road, Dushangang Town, Pinghu, Zhejiang Province	Landline: 0592-5685387 Mobile:13850096508 Fax: 0592-5685270	Tu Quandong	314000
				Landline: 0592-5685387 Mobile:13850096508 Fax: 0592-5685270	Huang Huizong	
4	Qingdao Qingyin Warehousing & Logistics Co., Ltd.	36 Huaihe East Road, Huangdao District, Qingdao, Shandong Province	36 Huaihe East Road, Huangdao District, Qingdao, Shandong Province	Landline: 0532-55663767 Fax: 0532-80989200 Mobile: 13608987099	Zhou Wenguang	266555
				Landline: 0532-80999217 Fax: 0532-80989200 Mobile: 15166022800	Liu Xiaodong	

No.	Designated Delivery Storage Facility	Office Location	Storage Location	Contact Information	Contact Person	Postal Code
5	China CO-OP Group Nantong Industry Development Co., Ltd.	888 Jinxiu Road, South Park, Tongzhou Economic & Technological Development Zone, Nantong, Jiangsu Province	888 Jinxiu Road, South Park, Tongzhou Economic & Technological Development Zone, Nantong, Jiangsu Province	Landline: 0513-86599129 Mobile: 18921602649 Fax: 0513-86599195	Xing Yuhua	226300
				Landline: 0513-86599117 Fax: 0513-86599195 Mobile: 18251319880	Gu Jianmeng	
6	Changshu Westerlund Warehousing Co., Ltd.	No. 1 Avenue, Xinghuagang District, Changshu Economic & Technological Development Zone, Jiangsu Province	No. 1 Avenue, Xinghuagang District, Changshu Economic & Technological Development Zone, Jiangsu Province	Landline: 0512-52696776 Fax: 0512-52699082 Mobile: 13601550609	Gu Yu	215513
				Landline: 0512-52292429 Fax: 0573-52699082 Mobile: 13862362528	Huang Shu	
7	CMST Development Co., Ltd.	585 Pingyu Road, Fengxian District, Shanghai	585/418 Pingyu Road, Fengxian District, Shanghai	Landline: 021-37123021 Fax: 021-57543285 Mobile: 13331955737	Wang Zhongliang	201413
				Landline: 021-37123026 Fax: 021-57543285 Mobile: 13816344720	Wang Zhongliang	
8	Shanghai Yuansheng Warehousing Co., Ltd.	Room 255, No. 3 Building, Lane 900, Quyang Road, Hongkou District, Shanghai	2508 Wenchuan Road, Baoshan District, Shanghai	Landline: 021-61806028 Fax: 021-61806026 Mobile: 13901816119	Chen Jian	200437
				Landline: 021-61806025 Fax: 021-61806026 Mobile: 13671698424	Bao Lina	
9	Shanghai Xiangyu Superchain Supply Chain Co., Ltd.	505 Changjian Road, Baoshan District, Shanghai	505 Changjian Road, Baoshan District, Shanghai	Landline: 021-33313672 Fax: 021-33313628 Mobile: 15021224863	Mao Rong	200003
				Landline: 021-33313612 Fax: 021-33313628 Mobile: 13761925676	Sun Qi	

5. Certified Inspection Agencies

No.	Certified Inspection Agency	Office Location	Contact Person	Telephone	Fax
1	Technical Center for Industrial Products and Raw Materials Inspection and Testing of Shanghai Entry-Exit Inspection and Quarantine Bureau	208 Lianfa Road, Jinshan District, Shanghai	Zhu Hongkun	021-60757700 13611980815	021-60757728
			Zhang Xiaorong	021-60757709 13817849009	
2	CMST Shanghai Material Inspection Co., Ltd.	489 Tieshan Road, Baoshan District, Shanghai	Zhu Baozhu	021-36583602 13311671069	021-36583614
			Song Yihua	021-36583611 13585515287	
3	Technical Center of Shandong Entry-Exit Inspection and Quarantine Bureau	70 Qutangxia Road, Qingdao, Shandong Province	Yan Pingping	0532-80885530 18678922615	0532-80885530
			Li Guohua	0532-80885516 13953258107	
4	Inspection and Quarantine Technical Center of Guangdong Entry-Exit Inspection and Quarantine Bureau	Tower B, 66 Huacheng Avenue, Zhujiang Xincheng, Guangzhou, Guangdong Province	Guo Renhong	020-38290470 13902270452	020-38290470
			Xiang Shulin	020-38290491 13710861009	020-38290477
5	Technical Center for Safety of Industrial Products of Tianjin Entry-Exit Inspection and Quarantine Bureau	2 East Five Road, Airport Economic Area, Tianjin	Zhao Lihua	13920630244	022-84978164
			Li Jianyong	13752253259	

Clearing Procedures and Rules

"Clearing" refers to the calculation and transfer of margin funds, gains and losses, transaction fees, delivery payment, and other types of payment in accordance with trading results and applicable rules of SHFE.

Day-to-Day Clearing

SHFE has opened a clearing account at each certified settlement bank to hold the margin funds and other relevant funds of its members; each member should open a futures settlement account at a certified settlement bank to hold the margin funds and other relevant funds of its customers. Margin funds deposited by members into SHFE's clearing account are accounted for separately by SHFE. SHFE should establish a subsidiary account for each member and record and verify such entries as deposits and withdrawals, gains and losses, trade margin, and transaction fees in chronological order for every member each day.

SHFE enforces the mark-to-market system under which SHFE, after the close of each trading day, will calculate gains and losses, trade margins, transaction fees, taxes and other charges on all contracts based on their current-day settlement price, and then transfer all payables and receivables by either crediting the netted amount into or debiting the netted amount from the clearing deposit of each member as appropriate.

"Clearing deposit" refers to the funds deposited into the clearing account of SHFE by a member to enable future trades as such funds are not tied to existing positions. The current-day (CD) clearing deposit balance = preceding-day (PD)

clearing deposit balance + (PD trade margin – CD trade margin) + (CD available margin credit derived from marketable securities – PD available margin credit derived from marketable securities) + CD gains and losses + funds deposits – funds withdrawals – transaction fees and other amounts.

If after daily clearing the clearing deposit of a member is less than the minimum requirement, such clearing result will constitute a margin call from SHFE to the member, and the gap between the two amounts will be the amount required to meet the call.

Following the margin call, SHFE is entitled to collect the corresponding amount from the member's futures settlement account via the certified settlement bank. Where a shortfall still exists after the collection, the member must eliminate it before market open on the following trading day; failing which, the member will be prohibited from opening new positions if its clearing deposit balance is positive but less than the minimum requirement, and be handled in accordance with the Risk Management Rules of the Shanghai Futures Exchange if its clearing deposit balance is negative.

Marketable Securities

Subject to the approval of SHFE, members may post marketable securities as margin, but losses, fees, taxes and other payments must be settled with cash. Customers should delegate their carrying FF members to handle marketable security-related processes.

Any FF member who applies for margin credit for its customer using marketable securities should furnish the Customer Authorization Letter signed and sealed by the customer. Any customer who applies for margin credit using its standard warrants may give such authorization and submit it to SHFE through the Standard Warrant System.

The clearing house of SHFE is responsible for handling the use of marketable securities as margin, and will accept such applications until market close on each day, unless otherwise extended by SHFE in special circumstances.

1. Types of admissible marketable securities:

Standard warrants and such other marketable securities as recognized by SHFE.

2. Collateralization process:

Application: A member should apply to SHFE to use marketable securities as margin. Any member who applies for margin credit for its customer using marketable securities should furnish the Customer Authorization Letter signed and sealed by the customer. Any customer who applies for margin credit using its standard warrants may give such authorization and submit it to SHFE through the Standard Warrant System.

Verification and deposit: After a member is approved by SHFE to use standard warrants as margin, the member should deposit the standard warrants with SHFE through the Standard Warrant System (see the Standard Warrant Rules of the Shanghai Futures Exchange for the detailed procedures). The deposit and verification of other types of marketable securities should comply with the rules of SHFE.

3. How the value of marketable securities is calculated

The market value of a marketable security is based on its reference price, which for standard warrant is the current-day settlement price of the nearest delivery month contract for the product specified on the warrant. Before market close on the day of collateralization, such market value will be tentatively based on the preceding-day settlement price of the nearest delivery month contract for the product specified on the warrant. The reference price for other types of marketable securities will be as determined by SHFE.

Delivery Procedures and Rules

(I)Final settlement price

Final settlement price of a BSKP futures contract is the volume-weighted average of all the execution prices of the contract over the last five trading days on which it was traded.

(II) Delivery Unit

The delivery unit for BSKP is standard warrant of 20 air dry metric tons. Delivery must be made in whole standard warrants.

(III) Quality Standards

1. The tensile index, burst index, and tear index of physically delivered BSKP should meet or exceed the standards set forth in QB/T1678-2017 Bleached Sulphate Woodpulp for Grade I softwood pulp; dirt count should meet or exceed the standard for Premium (highest listed grade) softwood pulp; D65 brightness should be no lower than 87%.

QB/T 1678-2017 Bleached Sulphate Woodpulp

Pulp type	Characteristics		Unit	Grade		
				Premium	Grade I	Compliant
BSKP	Tensile index [a]	⩾	N·m/g	85.0	70.0	60.0
	Burst index [a]	⩾	kPa·m²/g	6.5	5.0	4.0
	Tear index [a]	⩾	mN·m²/g	9.0	8.0	7.5
	D65 brightness		%	75.0-88.0		
	Intrinsic viscosity	⩾	mL/g	800	650	500
	Dichloromethane extracts	⩽	%	0.15		
	Dirt count	⩽	mm²/kg	10	30	70
	Ash content	⩽	%	0.4		
	Fluorescence (254 nm and 365 nm lights)		-	Compliant		
	Delivered moisture		%	16.0		
Physical properties of laboratory sheets are tested at a beating degree of 40 SR (or Canadian Standard Freeness of 300 ml).						

2. BSKP underlying each standard warrant must be of a certified brand from an SHFE-recognized manufacturer, accompanied by the corresponding certificate of quality.

3. The BSKP underlying each standard warrant must comprise genuine pulp of the same brand and manufacturer.

4. BSKP should be delivered in air dry metric tons as measured. Each standard warrant for BSKP should have a maximum weight differential of ±5% and maximum weighing error of ±1%.

5. Each standard warrant for BSKP should indicate the weight and count. The packaging for BSKP should comply with the rules of the Exchange.

6. Standard warrant for BSKP should be issued by a designated delivery storage facility after inspection and acceptance conducted according to applicable rules.

(IV) Packing and Stacking

1. The BSKP underlying each standard warrant must comprise genuine pulp of the same brand and manufacturer.

2. Deliverable BSKP should meet the packaging requirements for goods of certified brands from SHFE-recognized manufacturers. The outer packaging of each bale must conspicuously indicate the product name and other identifying information.

3. BSKP must arrive at a certified delivery storage facility in complete and clean packaging. The certified delivery storage facility should check the whole shipment at acceptance, and should refuse any commodity that is not fit for purpose due to obvious moisture, mold, contamination, serious physical damage, or other circumstances. Such commodity must not enter the delivery process.

4. Any commodity in delivery storage facility that has broken iron packaging wires or comes loose from the original packaging should be tightly secured with specified iron wires before being cleared for delivery. The cost of repackaging will be borne by the owner.

5. The deliverable BSKP underlying each standard warrant should be stacked in storage areas which hold 500 metric tons each.

(V) Required Documentation for Commodity for Delivery

Domestic commodity: the certificate of inspection issued by a designated inspection agency, the certificate of quality issued by the manufacturer, and other relevant materials. These documentations are valid only after being verified by the Exchange. Imported commodity: the certificate of inspection issued by a designated inspection agency; the customs declaration form, customs VAT collection form, certificate of origin, and certificate of quality covering the physical commodity in question; and other relevant materials. These documentations are valid only after being verified by the Exchange. If there is any change to national policies on taxation, quality inspection, or other pertinent areas, the updated policies will prevail. Under such circumstances, the Exchange will separately announce the updated documentation requirement for imported commodity.

(VI) Load-In/Load-Out Inspection

1. BSKP arriving at a storage facility must be inspected by a designated inspection agency. This inspection consists of quality inspection and weight inspection. The results of quality inspection should be as indicated by the quality inspection report issued by the designated inspection agency; a standard warrant may only be issued when the report indicates that the commodity meets the quality standards prescribed by the Exchange. The results of weight inspection should be as indicated by the weight inspection report issued by the designated inspection agency. The owner must ensure that the commodity loaded in is compliant with the quality standards prescribed by the Exchange.

2. The commodity should be inspected by a sampling inspection. Samples should be taken within the certified delivery storage facility. Sampling at stations, docks, or from commodities in-transit is prohibited. The commodity covered by each bill of lading should form one inspection lot. Each inspection lot should consist of BSKP of the same certified brand and packaging specification.

(VII) Validity Period of Standard Warrant

1. Domestic BSKP is valid for delivery till the last delivery month of the second year after the year of manufacture, after which month the BSKP will be converted to spot product.

2. Imported BSKP should be loaded into a storage facility within six months of its port arrival date, and is valid for delivery till the last delivery month of the second year after such date, after which month the BSKP will be converted to spot product.

(VIII) Delivery and Clearing Procedures

Physical delivery of BSKP should be completed within the delivery period specified by the contract, which is the five business days following the contract's last trading day, referred to successively as the first delivery day, the second delivery day, the third delivery day, the fourth delivery day, and the fifth delivery day. The fifth delivery day is the last delivery day. The delivery procedures are as follows:

1. First delivery day

(1) The buyer submits a letter of intent. The buyer needs to submit to SHFE a letter of intent for the commodity it intends to take delivery. The letter of intent should specify the brand and quantity of the commodity to be delivered as well as the name of the certified delivery storage facility.

(2) The seller submits standard warrants. The seller should, through the Standard Warrant System, submit to SHFE standard warrants with carrying charges fully paid off.

2. Second delivery day

Allocation of standard warrants. SHFE will centrally allocate standard warrants to buyers based on time of request, preference for integer quantity, and geographical proximity. Standard warrants that cannot be used for the physical delivery of later-month futures contracts will be prorated among the buyers according to their relative share in the total delivery volume of the current month.

3. Third delivery day

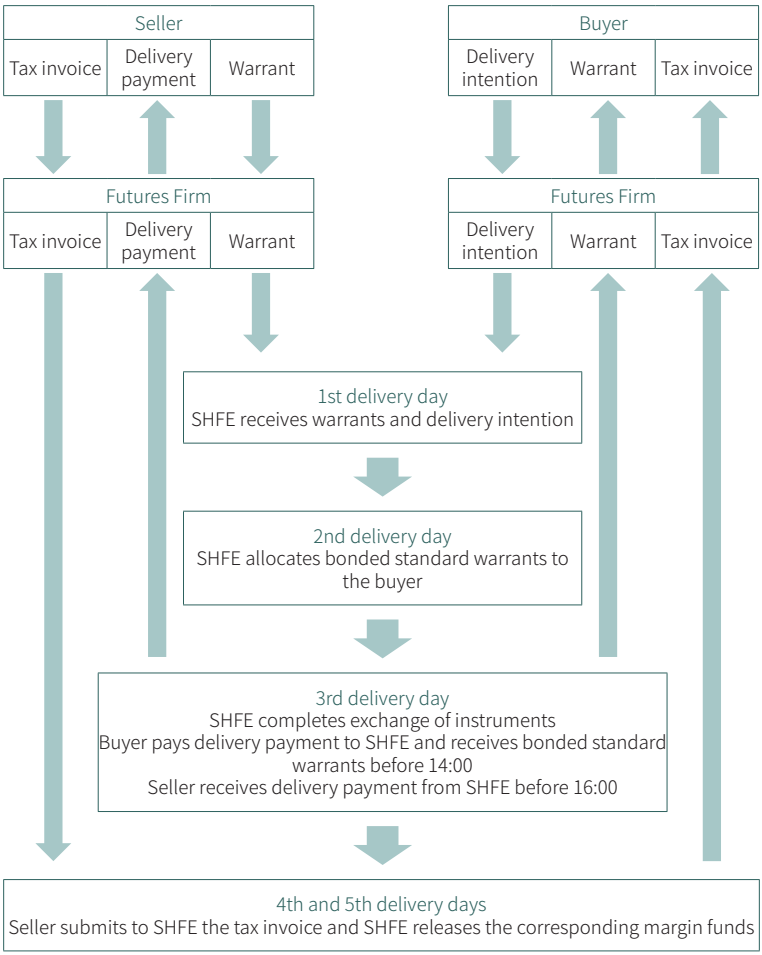
(1) The buyer makes delivery payment and receives standard warrants. The buyer should make delivery payment at SHFE in exchange for the standard warrants before 14:00.

(2) The seller receives payment. SHFE will transfer the delivery payment to the seller before 16:00. This transfer may be postponed under special circumstances.

4. Fourth and fifth delivery days:

The seller needs to submit to SHFE the corresponding special VAT invoice.

Delivery Procedures



Risk Management Rules

Trade Margin Requirement

"Trade margin" refers to funds deposited by a member into the clearing account of SHFE to ensure the fulfillment of contracts and to maintain the positions being held by the member. The minimum trade margin for BSKP futures contract is 4% of the contract value.

As a contract approaches its delivery period, SHFE will adjust the rate of trade margin as follows:

Stage-Based Trade Margin for BSKP Futures

Stage of Trading	Trade Margin
As of listing	4%
As of the first trading day of the month prior to the delivery month	10%
As of the first trading day of the delivery month	15%
As of the second trading day prior to the last trading day	20%

When the cumulative price increase or decrease ("N") of a BSKP futures contract reaches 9% over three consecutive trading days (denoted as D1, D2, and D3), or 12% over four consecutive trading days (D1, D2, D3, and D4), or 13.5% over five consecutive trading days (D1, D2, D3, D4, and D5), SHFE may, according to market conditions, take one or more of the following measures: (i) raising the trade margin requirement for some or all of the members by the same or different amount for either long positions, short positions, or both; (ii) limiting the withdrawal of funds by some or all the members; (iii) suspending

some or all of the members from opening new positions; (iv) adjusting the range of price limit to any value not more than ±20%; (v) requiring the liquidation of open positions by a prescribed deadline; and/or (vi) performing forced liquidation.

N is calculated as follows:

$$N = \frac{P_t - P_0}{P_0} \times 100\% \qquad t=3,4,5$$

P_0 is the settlement price on the trading day prior to D1;

P_t is the settlement price of trading day Dt, where t = 3, 4, or 5, as applicable;

P_3 is the settlement price of D3

P_4 is the settlement price of D4

P_5 is the settlement price of D5

Price Limits

"Price limit" refers to the maximum permitted intraday upward and downward price movement for a contract compared with its settlement price from the previous day. Orders with price beyond this limit will be considered invalid and will not be executed.

The maximum permitted intraday price movement for any BSKP futures contract is ±3% of its settlement price from the preceding day. This price limit may be adjusted by SHFE according to market risk conditions. If a same direction Limit-Locked Market occurs to a BSKP futures contract on successive days, the range of price limit and the trade margin will be set as follows:

Price Limit and Trade Margin of BSKP Futures Contract After Hitting the Price Limit

Trading Day	Price Limit	Intraday Margin Rate	Settlement Margin Rate
D1	X%	Y%	D2 price limit + 2%
D2	X%+3%	D2 price limit + 2%	D3 price limit + 2%
D3	X%+5%	D3 price limit + 2%	D3 price limit + 2%

Note: X% denotes the price limit for BSKP on D1; Y% is the corresponding rate of trade margin for BSKP on D1

When a BSKP futures contract is limit-locked on a trading day (denoted as D1; the following trading days are sequentially denoted as D2, D3, D4, D5, and D6; the preceding trading day is denoted as D0), price limit for said contract on D2 will be increased by three percentage points from that of D1. In addition, at time of settlement on D1, the rate of trade margin for the contract will be raised by two percentage points from its D2 price limit.

If the contract is not limit-locked on D2, its price limit and rate of trade margin will return to their normal levels on D3. If reverse direction Limit-Locked Market occurs on D2, a new round of Limit-Locked Market begins, i.e., D2 becomes D1 for this new round, and the trade margin and price limit for the following trading day will be governed by Article 12 of the *Risk Management Rules of the Shanghai Futures Exchange*. If a same direction Limit-Locked Market occurs on D2, the price limit for D3 will be set to five percentage points above that for D1. In addition, at daily clearing on D2, the trade margin for the contract will be set to two percentage points above the price limit for D3.

If same direction Limit-Locked Market does not occur on D3, the price limit and the trade margin will return to their normal levels on D4; if reverse direction Limit-Locked Market occurs on D3, a new round of Limit-Locked Market begins, i.e., D3 becomes D1 for this new round, and the trade margin and price limit for the following trading day will be governed by Article 12 of the *Risk Management Rules of the Shanghai Futures Exchange*.

If same direction Limit-Locked Market occurs on D3 (i.e., the market has been locked at the price limit for three consecutive trading days), then at daily clearing on D3 SHFE will collect trade margin at the same rate as on D2 and may suspend the withdrawal of funds by some or all of its members.

If additionally D3 is the last trading day of the contract, then the contract will directly proceed to delivery; if D4 is the last trading day, the price limit and trade margin for D3 will remain in effect on D4; if neither D3 nor D4 is the last trading day, trading in the contract will be suspended on D4, and on which day SHFE will decide to take one of the following two measures as appropriate for the market:

Option 1: On D4, SHFE may make a public announcement that it will take one or more of the following actions on D5:

· raising the trade margin requirement for some or all of the members by the same or different amount for either long positions, short positions, or both;

· suspending some or all of the members from opening new positions;

· adjusting the range of price limit to any value not more than ±20%;

· limiting the withdrawal of funds;

· requiring the liquidation of open positions by a prescribed deadline;

· and/or performing forced liquidation.

After SHFE announces a margin rate adjustment, members with insufficient margin must deposit additional funds to meet the adjusted margin requirement by the opening of D5. If the price limit for D5 is not triggered on D5, both the price limit and the trade margin will return to their normal levels on D6. If it is triggered and is in the same direction as that on D3, SHFE will announce that an abnormal circumstance exists and will take risk control measures per applicable rules. If the price limit for D5 is triggered but is in the opposite direction to that on D3, a new round of a Limit-Locked Market starts,

D5 will be reset as D1, and the trade margin and price limit will be set pursuant to Article 12 of the *Risk Management Rules of the Shanghai Futures Exchange*.

Option 2: At daily clearing on D4, SHFE may automatically match, at the D3 price limit and on a pro rata basis, (a) all orders placed at the price limit but remained unfilled by market close on D3, with (b) the open positions held by all customers (or non-FF members) who record net gains on their positions in the contract. Long and short positions held by a customer (or non-FF members) will be mutually offset before being closed out in the foregoing manner.

Position Limits

SHFE enforces position limits. "Position limit" refers to the maximum size of long positions or short positions in a particular contract each member or customer is permitted by SHFE to hold. This limit does not apply to hedging positions, which are subject to a different limit to be approved on a case-by-case basis by SHFE.

By market close of the last trading day of the month before the delivery month of a BSKP futures contract, the speculative positions held by every member and by every customer through each member should be adjusted to multiples of two lots. In the delivery month, speculative positions, opening of new positions, and closing of existing positions in the BSKP futures contract should all be in multiples of two lots.

The relative and absolute position limits for a BSKP futures contract at different stage of trading for an FF member, a non-FF member, and a customer are set as follows:

Relative and Absolute Position Limits for BSKP Futures Contracts

	From day of listing to the delivery month		From day of listing to the last trading day of the second month prior to the delivery month		Month prior to the delivery month		Delivery month	
	Gross open interest (lots)	Relative position limit (%)	Absolute position limit (lots)		Absolute position limit (lots)		Absolute position limit (lots)	
		FF	Non-FF	Customer	Non-FF	Customer	Non-FF	Customer
BSKP	⩾ 500,000 lots	25	4500	4500	900	900	300	300

Note: Gross open interest is long and short positions combined; relative and absolute position limits for FF members, non-FF members, and customers is calculated based on the larger side position; the relative position limit for FF members is the baseline limit.

Large Position Reporting

When the speculative positions of a member or customer in a product reach 80% or more of the applicable position limit set by SHFE, or upon request by SHFE, the member or customer should report details on its funds and open positions to SHFE. Customers should submit such reports through their carrying member. SHFE may adjust the reporting thresholds for members and customers in view of market risks.

Forced Liquidation

SHFE implements a forced liquidation regime to control market risks. “Forced liquidation” means the action SHFE takes to forcibly close out the positions of a member or customer for a rule violation.

SHFE will force-liquidate a member or customer's open positions under the following circumstances:

(1)the clearing deposit balance of the member falls below 0 and the member fails to meet the margin requirement within the specified time limit;

(2)the member or customer has exceeded its applicable position limit;

(3)the member or customer fails to adjust its open positions in a futures contract to a multiple of the prescribed size within the specified time limit;

(4)any violation of SHFE rules that warrants forced liquidation;

(5)any emergency action taken by SHFE that requires forced liquidation; or

(6)any other situation that necessitates forced liquidation.

Forced liquidation should be first carried out by the member itself within the first trading session after market open or within such time period as otherwise specified by SHFE. If it is not completed by the member within the prescribed time limit, it will be enforced by SHFE. If the forced liquidation is carried out due to a negative clearing deposit balance, the relevant member will not be able to establish new positions until the margin requirement is met.

Risk Warning

SHFE implements a risk warning regime. SHFE may, whenever it deems necessary, take one or more of the following actions to warn against and mitigate risks: requiring the submission of an explanation; arranging an interview to give an oral warning; issuing a warning letter; issuing a public reprimand; and/or issuing a risk warning notice.

Hedging Rules

Hedging is a risk avoidance strategy wherein the trader buys (sells) futures contracts whose underlying asset is of identical type and quantity to that to be sold (bought) in the spot market, so that losses suffered in one market will be mostly equal to gains made in the other regardless of the price movement in the spot market.

According to the Hedging Rules of the Shanghai Futures Exchange, hedging positions in BSKP futures include hedging positions for regular months (i.e., from the day of listing to the last trading day of the second month prior to the delivery month) and hedging positions for nearby delivery months (i.e., the month prior to the delivery month and the delivery month). Hedging positions in BSKP futures require the approval of SHFE. Hedging transactions are classified into long hedge and short hedge.

(I) Application materials required from customers for regular month hedging quota

A member or customer who applies for regular month hedging quota should fill out the SHFE Form of Application (Approval) for Hedging Position in Regular Months and submit the following supporting materials to SHFE:

1. Photocopy of the duplicate business license;

2. Relevant materials to prove the scale of the business, such as operating plan for physical commodity business for the current year or the following year, audit financial reporting, and any sales contracts or other valid documentation corresponding to the hedging quota being applied for;

3.the hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered and/or closed out;

4.other supporting materials required by SHFE.

(II) Application materials required from customers for nearby delivery month hedging quota

A member or customer who applies for nearby delivery month hedging quota should fill out the SHFE Form of Application (Approval) for Hedging Position in Nearby Delivery Months and submit the following supporting materials to SHFE:

1. Photocopy of the duplicate business license;

2. Relevant materials to prove the authenticity of hedging demand of enterprises in the close delivery month, such as operating plan for physical commodity business for the current year or the following year, audit financial reporting, and any sales contracts or other valid documentation corresponding to the hedging quota being applied for;

3. The hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered and/or closed out;

4. Other supporting materials required by SHFE.

(III) Time of application

Application for regular month quota should be submitted before the last trading day of the second month before the delivery month of the contract concerned; that for nearby delivery month quota should be submitted between the first trading day of the third month before the delivery month and the last trading day of the month before the delivery month. Late applications will not be accepted. The applicant may simultaneously apply for a hedging quota for multiple delivery months. SHFE will review the application within five trading days after the application is received.

(IV) Time for establishing hedging positions

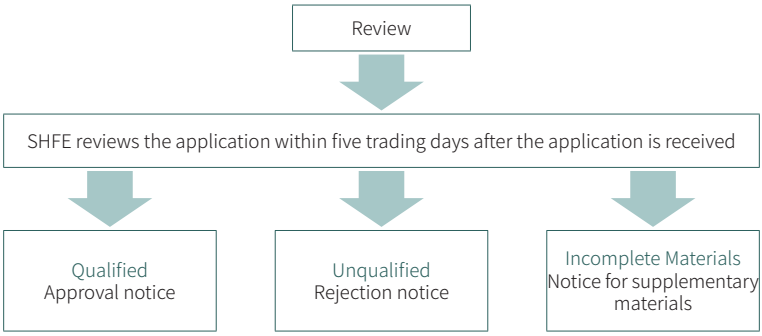
Any member or customer who is granted a hedging quota should establish positions in such trading direction and size as approved before market close of the third trading day before the last trading day of the contract concerned; failing which, the hedging quota will be deemed forfeited. Hedging quota may no longer be used in a revolving manner starting from the first trading day of the delivery month.

Application

Eligible applicants:Enterprises producing, processing, distributing, or dealing in fuel oil-related raw materials
Classification: Hedging positions for regular months and hedging positions for nearby delivery months

Regular months:From the listing day of the contract to the last trading day of the second month prior to the delivery month.
Nearby delivery months:The month prior to the delivery month and the delivery month.
Deadline: Application for regular month quota should be submitted before the last trading day of the second month before the delivery month of the contract concerned; that for nearby delivery month quota should be submitted between the first trading day of the third month before the delivery month and the last trading day of the month before the delivery month. Late applications will not be accepted.
The applicant may simultaneously apply for a hedging quota for multiple delivery months.

Materials required for regular month hedging quota: (1) a duly completed SHFE Form of Application (Approval) for Hedging Position in Regular Months; (2) photocopy of the duplicate business license; (3) performance in physical commodity businesses in the preceding year; (4) operating plan for physical commodity business for the current year or the following year; and any sales contracts or other valid documentation corresponding to the hedging quota being applied for; (5) the hedging plan; and (6) other supporting materials required by SHFE.
Materials required for nearby delivery month hedging quota: (1) a duly completed SHFE Form of Application (Approval) for Hedging Position in Nearby Delivery Months; (2) For a producer, production plan for the current or preceding year; either warrants for physical commodities or other valid certificates of ownership of physical commodities corresponding to the hedging quota being applied for. (3) For a processor: production plan for the current or preceding year; (for long hedge quota) processing orders or sales contracts corresponding to the hedging quota being applied for; (for short hedge quota) either warrants for physical commodities or other valid certificates of ownership of physical commodities (sales contracts or tax invoices) corresponding to the hedging quota being applied for. (4) For a trading company or other types of enterprise: (For long hedge quota) sales contracts or other valid documentation corresponding to the hedging quota being applied for; (for short hedge quota) warrants for physical commodities, sales contracts, or other valid documentation corresponding to the hedging quota being applied for.


Review
SHFE reviews the application within five trading days after the application is received
Qualified
Approval notice
Unqualified
Rejection notice
Incomplete Materials
Notice for supplementary materials

(V) Hedging with BSKP Futures

Example of short hedge:

Both pulp and paper manufacturers and pulp traders, who act as suppliers in the pulp market, have an interest to maintain a reasonable profit margin for the goods they intend to sell to the market in the future. To avoid potential losses at the actual time of sale due to price change, they can take a short hedge position on the corresponding futures product, i.e., first sell the same quantity of futures product, and then, at time of sale of the spot product, purchase the same quantity of futures product to close out their position.

Here is an example: a pulp trader learned in July that the spot price for BSKP was ¥6,300 per metric ton, which it believed to be quite favorable and increased its inventory as a result. However, the trader was also worried about an oversupply in the market would cause the BSKP price to fall, eroding its profit margin. To avoid the risk of falling prices and to protect its profit, the trader decided to take a short hedge in BSKP futures on SHFE.

	Spot Market	Futures Market	Basis
July 1	BSKP Price: ¥6,300/metric ton	100 lots of OCT contract sold at ¥6,600/metric ton	-¥300/ metric ton
September 1	1,000 metric tons sold at ¥6,200/metric ton	100 lots of OCT contract bought at ¥6,500/metric ton	-¥300/ metric ton
Hedging Result	— ¥100/metric ton	+ ¥100/metric ton	
	Net gain or loss: 0		

While the adverse price movement in the spot market incurs a loss of ¥100,000 to the trader, a gain by the same amount in the futures market has offset that, thereby eliminating the negative effect from the price change.

Example of long hedge:

Paper manufacturers are concerned about a price increase in pulp. To avoid losses potentially resulting from a price hike at time of purchase of raw materials and reduce the risk of price volatility, they can take a long hedge position in the futures market, i.e., first buy the same quantity of futures product, and then, at time of purchase of the spot product, sell the futures product to close out their position.

Example: in September, a paper manufacturer intended to purchase a batch of pulps in December. Anticipating that pulp price would increase in the subsequent three months, the manufacturer decided to take a long hedge position in the futures market by entering into a pulp futures trade to prevent adverse price effect:

	Spot Market	Futures Market	Basis
September 1	BSKP Price: ¥6,300/metric ton	100 lots of JAN contract bought at ¥6,500/metric ton	-¥200/ metric ton
December 1	1,000 metric tons bought at ¥6,500/metric ton	100 lots of JAN contract sold at ¥6,700/metric ton	-¥200/ metric ton
Hedging Result	— ¥200/metric ton (compared with the price in September)	+ ¥200/metric ton	
	Net gain or loss: 0		

While the adverse price movement in the spot market incurs an extra ¥200,000 in raw materials cost to the paper manufacturer compared with September, a gain by the same amount in the futures market has offset that, thereby enabling the manufacturer to maintain its desired profit margin and avoid the risk of price movement in raw materials.

Appendix

Pulp (Futures) Inspection Rules

CHAPTER 1 GENERAL PROVISIONS

Article 1 These Rules, jointly formulated by inspection agencies certified by the Shanghai Futures Exchange (“designated inspection agencies”) according to applicable rules of the Shanghai Futures Exchange (SHFE or the “Exchange”), are designed to ensure the smooth completion of delivery inspection in connection with bleached softwood kraft pulp (“BSKP”) futures and to regulate inspections conducted in the physical delivery of BSKP.

Article 2 These Rules shall apply to the delivery inspections in connection with BSKP futures of the Exchange.

Article 3 The laboratories of each designated inspection agency shall meet the infrastructure and capacity requirements prescribed by the laws and regulations of China and have obtained relevant laboratory accreditations and certifications.

CHAPTER 2 INSPECTION BY CERTIFIED DELIVERY STORAGE FACILITY

Article 4 Acceptance of Inspection Request by Designated Inspection Agency

4.1 BSKP futures adopts brand-based delivery, which means deliverables shall be genuine pulp of SHFE-certified brands from mills designated by the Exchange.

4.2 A designated inspection agency shall be engaged to inspect the quality and weight of BSKP loaded in. Standard warrant shall only be issued after the shipment has passed the inspection.

4.3 The party that requests for a load-in inspection (the "Requester") shall at the time of request furnish the Futures Deliverable Storage Information Sheet issued by the designated delivery storage facility concerned, which shall indicate the time of load-in, manufacturer, manufacturing mill, brand, weight (in air dry metric tons), number of units, number of bales, and storage area, among other information.

4.4 A Requester shall, after the load-in of BSKP, request a designated inspection agency to conduct a delivery inspection.

4.5 A Requester intending to engage a designated inspection agency for inspection of commodity for futures delivery shall submit to it an engagement letter, together with the following documents:

(1) for imported wood pulp, certificate of quality (quality specifications), bill of lading, customs declaration form, sales contract, tax invoice, itemized quantity/weight list, and other relevant documents.

(2) for domestic wood pulp, certificate of quality (quality specifications), itemized quantity/weight list, and other relevant documents.

4.6 The Requester shall be either the owner of the physical commodity or a person authorized by the owner. The authorized person shall produce the letter of authorization issued by the owner when requesting the inspection.

Article 5 Pre-Inspection

5.1 Designated inspection agency shall conduct only one sampling inspection on the quality and weight of the physical commodity covered by the inspection request.

5.2 Designated inspection agency shall, following acceptance of inspection request, fix the date of sampling and weight inspection and notify the Requester of the same. After receiving the notice, the Requester shall make the necessary arrangement with the designated delivery storage facility to ensure the smooth completion of the on-site inspection

5.3 The designated inspection agency shall examine the Futures Deliverable Storage Information Sheet and other relevant materials. If the information on the inspection request is inconsistent with the physical commodity, or if the bale packaging shows such signs as serious physical damage, serious water damage, or mold, the designated inspection agency may terminate the inspection and the Requester shall bear the corresponding liabilities.

5.4 Where the information on the inspection request is consistent with the physical commodity, the commodity covered by each bill of lading shall form one inspection lot. Each inspection lot shall consist of BSKP of the same certified brand and packaging specification.

5.5 The sampling of BSKP shall be conducted in an indoor storage facility that is well-lit, dry, clean, and sheltered. Unpacking shall be done on-site.

5.6 The designated delivery storage facility shall arrange for calibrated standard weighing equipment, mechanical equipment, basic packaging equipment, and workmen.

Article 6 Inspection

6.1 Weight inspection shall be conducted according to GB/T 8944.1-2008 and GB/T 8944.2-2008 Pulps – Determination of Saleable Mass in Lots. Sampling quantity should be identical to the quantity in the initial inspection , with each lot consisting of 30 or 32 bales as samples (depending on the number of bales in each unit).

6.2 Following quality sampling and weight inspection, the designated delivery storage facility shall be responsible for repacking the loose bales and strapping them into plain bundles to prevent contamination of the commodity for delivery.

6.3 Quality Inspection

6.3.1 Quality sampling and testing shall be conducted according to QB/T 1678-2017 Bleached Sulfate Woodpulp.

6.3.2 Inspection items include tensile index (N · m/g), burst index (kPa · m2/g), tear index (mN · m2/g), dirt count (mm2/kg), and D65 brightness (%).

6.4 Assessment of Inspection Result

6.4.1 The tensile index, burst index, and tear index of BSKP shall meet or exceed the standards set forth in QB/T1678-2017 Bleached Sulphate Woodpulp for Grade I softwood pulp; dirt count shall meet or exceed the standard for Premium (the highest listed grade) softwood pulp; D65 brightness shall be no lower than 87%.

6.4.2 The result of weight inspection shall be assessed against GB/T 8944.1-2008 and GB/T 8944.2-2008 Pulps – Determination of Saleable Mass in Lots.

6.4.3 An inspection report shall be issued upon completion of the inspection.

CHAPTER 3 INSPECTION REPORT

Article 7 A designated inspection agency shall issue a quality inspection report and a weight inspection report (each in one original and several duplicates) within seven (7) business days following the on-site sampling.

Article 8 Samples used in quality inspection shall be kept for six (6) months.

CHAPTER 4 MISCELLANEOUS

Article 9 These Rules shall be filed with the Shanghai Futures Exchange before implementation.

Article 10 The designated inspection agencies of the Exchange (jointly) reserve the right to interpret these Rules.

Article 11 Matters not covered herein shall be governed, mutatis mutandis, by the Articles of Association, General Exchange Rules, and other implementing rules of the Exchange.

Article 12 These Rules shall come into effect as of Nov. 14, 2018.

Appendix 1.1: Bleached Softwood Kraft Pulp (Futures) Quality Inspection Report

Appendix 1.2: Bleached Softwood Kraft Pulp (Futures) Weight Inspection Report

Appendix 1.1

Bleached Softwood Kraft Pulp (Futures) Quality Inspection Report

No.: XXXX
Date: XXXX

Requester:
Brand / Pulp type:
Quantity / Weight (ADMT): XXX units / XXX bales / XXX metric tons
Bill of lading No. (Waybill No.):
Manufacturing date / Port arrival date:
Sampling location:
Storage area No.:
Inspection location:
Testing result:
Representative samples were randomly chosen from the storage area specified above, with the following testing results:

Characteristics	Unit	Specification	Result	Assessment
Tensile index	N·m/g	⩾70.0		
Burst index	kPa·m^2/g	⩾5.0		
Tear index	mN·m^2/g	⩾8.0		
Dirt count	mm^2/kg	⩽10.0		
D65 brightness	%	⩾87.0		

Note: Physical properties of laboratory sheets are tested at a beating degree of 40 SR (or Canadian Standard Freeness of 300 ml) as required by QB/T 1678-2017.

Conclusion: The above testing results meet the quality standards set forth in SHFE Bleached Softwood Kraft Pulp Futures Contract.

Approved by: Reviewed by: Prepared by:

Appendix 1.2

Bleached Softwood Kraft Pulp (Futures) Weight Inspection Report

No.: XXXX
Date: XXXX

Requester:
Brand / Pulp type:
Quantity / Weight (ADMT): XXX units / XXX bales / XXX metric tons
Bill of lading No. (Waybill No.):
Manufacturing date / Port arrival date:
Sampling location:
Storage area No.:
Inspection location:
Testing result:

In accordance with the standard methodology specified in GB/T 8944.1-2008 and GB/T 8944.2-2008, we have randomly sampled xx bales from the shipment that featured complete packaging, weighed each unit (bale) with calibrated scale, and tested the water content of the representative samples we selected from the lot. Our inspection indicates that XXX units of XXX bales have been delivered, with a total weight of XXX.XXX ADMT, giving an average of XX.XXX metric tons (XXX units / XXX bales) per standard warrant. The detailed inspection results are as follows:

Average water loss at 105±2°C	%
Bone dry percentage	%
Air dry percentage (90% dry as baseline)	%
Gross weight delivered in current shipment	XXX. XXX metric tons
Gross air dry weight delivered in current shipment	XXX. XXX metric tons
Total units / bales delivered in current shipment	XXX pieces (XXX packs)
Average gross weight of each unit	X. XXX metric tons
Average air dry weight of each unit	X. XXX metric tons
Average weight on each standard warrant	XX. XXX metric tons

Approved by: Reviewed by: Prepared by:

The content of this manual is for reference only. For the latest information, please consult the relevant departments of Shanghai Futures Exchange (operator: 8621-68400000) or visit the website of Shanghai Futures Exchange (http://www.shfe.com.cn).

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