

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

**Registered Entity Identifier Code (optional):** 18-178

**Organization:** Commodity Exchange, Inc. ("COMEX")

**Filing as a:**     **DCM**         **SEF**         **DCO**         **SDR**

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** 6/15/2018    **Filing Description:** Amendments to the Aluminum Futures Contract to Include Duty Unpaid Aluminum to be Eligible for Delivery

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

**Rule Numbers:**

**New Product**

**Please note only ONE product per Submission.**

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

**Official Name(s) of Product(s) Affected:** See filing.

**Rule Numbers:** See filing.

June 15, 2018

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**Re: CFTC Regulation 40.6(a) Certification. Notification Regarding Amendments to the Aluminum Futures Contract to Include Duty Unpaid Aluminum to be Eligible for Delivery.  
COMEX Submission No. 18-178**

Dear Mr. Kirkpatrick:

Commodity Exchange, Inc. ("COMEX" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying an amendment to the Aluminum Futures (Commodity Code: ALI; Rulebook Chapter: 107) contract (the "Contract") effective Sunday, July 1, 2018 for trade date Monday, July 2, 2018 commencing with the July 2018 contract month and beyond.

Currently, only duty paid aluminum is eligible for delivery against the Contract. The Exchange is amending Rule 107101. ("Contract Specifications") of the Contract which will provide that duty unpaid aluminum, which satisfies the specifications of the Contract, shall also be eligible for delivery against the Contract.

Exhibit A attached provides amendments to Rule 107101. in blackline format.

The Contract is listed for trading on CME Globex and for submission for clearing through CME ClearPort.

The Exchange reviewed the designated contracts market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "ACT") and identified that the amendments may have some bearing on the following core principles:

- **Contracts Not Readily Susceptible to Manipulation:** The Contract is not readily subject to manipulation as a result of the deep liquidity and robustness of the underlying cash and futures market.
- **Daily Publication of Trading Information:** Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.
- **Availability of General Information:** The Exchange will amend the NYMEX/COMEX rulebook accordingly on the effective date which is publicly available on the CME Group website. In addition, the Exchange will publish a Special Executive Report ("SER") to advise the marketplace of these amendments. The SER will also be posted on the CME Group website.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to these amendments.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A – Cash Market Overview and Analysis of Deliverable Supply  
Exhibit B – Amendments to COMEX Rule 107101. (blackline format)

## Exhibit A

### CASH MARKET OVERVIEW

Aluminum's combination of physical properties results in its use in a wide variety of products, many of which are indispensable to modern life. Because of its light weight and electrical conductivity, aluminum wire is used for long-distance transmission of electricity. Aluminum's strength, light weight, and workability have led to increased use in transportation systems, including light vehicles, railcars, and aircraft, as efforts to reduce fuel consumption have increased. Aluminum's excellent thermal properties and resistance to corrosion have led to its use in air conditioning, refrigeration, and heat-exchange systems. Finally, its malleability has allowed it to be rolled and formed into very thin sheets used in a variety of packaging.

Aluminum is the second most abundant metallic element in the Earth's crust after silicon, yet it is a comparatively new industrial metal that has been produced in commercial quantities for just over 100 years.<sup>1</sup> Aluminum weighs about one third as much as copper or steel and is malleable, easily machined and cast, and has excellent corrosion resistance and durability. Aluminum activity spans physical plants and facilities, recycling, heavy industry, or consumption of consumer goods. Top markets for the industry are transportation, beverage cans and other packaging, and building/construction. Aluminum recovery from scrap has become an important component of the aluminum industry. Though, aluminum recycling had been a common practice since the 1900s, its profile increased in the 1960s when recycling became a focus of public awareness. Sources for recycled aluminum include automobiles and appliances, however, recycling of aluminum cans seems to have the highest profile.

#### **Production and Consumption**

According to the United States Geological Survey (USGS), U.S. production of primary aluminum decreased for the fifth consecutive year, declining about 12% in 2017 from that of 2016 and 64% from that in 2012<sup>2</sup>. U.S. import reliance continued to increase in 2017 because domestic production declined and U.S. manufacturers were increasingly supplied by imports. U.S. imports of aluminum rose by 17% in 2017 compared to 2016 and Canada was the leading supplier of the imported material<sup>3</sup>. The United States ranked twelfth of twelve major producing nations, with China leading in world aluminum production. In 2017, two companies operated five primary aluminum smelters in four states<sup>4</sup>.

**Table 1. U.S. Primary Aluminum Production**

<b>Year</b>	<b>Total Annual Production (MT)</b>
2013	1,946,000
2014	1,710,000
2015	1,587,000
2016	841,000
2017e	740,000

Source: USGS

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<sup>1</sup> United States Geological Survey (USGS) <http://minerals.usgs.gov/minerals/pubs/commodity/aluminum/>

<sup>2</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2018-alumi.pdf>

<sup>3</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2018-alumi.pdf>

<sup>4</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2018-alumi.pdf>

**Table 2. U.S. Imports for Consumption (Crude, semi manufactures, scrap)**

<b>Year</b>	<b>Total Annual Consumption (MT)</b>
2013	4,725,000
2014	4,849,000
2015	5,081,000
2016	6,019,000
2017e	7,030,000

Source: USGS

The concentration of aluminum consumption was centered in the Midwest portion of the United States. Transportation applications accounted for an estimated 41% of domestic consumption followed by packaging 20%; building 14%; electrical 8%; machinery 7%; consumer durables 7%; and other 3%.<sup>5</sup>

Aluminum is also used in products such as beverage cans and bottles, food containers, and household and institutional foil. Product manufacturers and consumers appreciate foil for its impermeability to light, water, and oxygen - making it a preferred barrier material for beverage, food, and pharmaceutical products. Additionally, aluminum's low weight gives it a competitive advantage over other materials regarding shipping costs.

On April 27, 2017, in the United States, the President instructed the Secretary of Commerce to conduct an investigation on the impact of aluminum imports on U.S. national security under the authority of Section 232 of the Trade Expansion Act of 1962<sup>6</sup>. In January 2018, the Department of Commerce delivered the Section 232 reports on steel and aluminum to the President. In February 2018, the Commerce Department publicly released Section 232 reports on imported steel and aluminum. The reports concluded that the quantities and circumstances of steel and aluminum imports "threaten to impair the national security," as defined by Section 232. The reports found that United States steel imports were nearly four times our exports, and that aluminum imports had risen to 90% of total demand for primary aluminum. The Commerce Department recommended that President Trump take action to protect the long-term viability of our nation's steel and aluminum industries<sup>7</sup>.

On March 8, 2018, President Trump announced that imported aluminum and steel would be taxed at 10% and 25%, respectively exempting Canada and Mexico. The President is also negotiating for changes to the North American Free Trade Agreement (NAFTA). He indicated that other countries may also be exempt from the tariffs if ensured that their trade actions are not harmful to America's security<sup>8</sup>.

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<sup>5</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2018-alumi.pdf>

<sup>6</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2018-alumi.pdf>

<sup>7</sup> <https://www.whitehouse.gov/briefings-statements/need-know-section-232-investigations-tariffs/>

<sup>8</sup> <https://www.usatoday.com/story/news/politics/2018/03/08/trump-planning-make-formal-tariff-announcement/406065002/>

## **ANALYSIS OF DELIVERABLE SUPPLY**

The Commission defines deliverable supply as the quantity of the commodity meeting a derivative contract's delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce. (See Appendix C to 17 CFR part 38).

In its analysis of deliverable supply, the Exchange has determined to include warehouse stocks of aluminum conforming to the Exchange contract specifications for Aluminum Futures. Following the rule amendment, metal that is either duty paid aluminum or duty unpaid aluminum shall be considered eligible for delivery against the Aluminum Futures contract. In addition, with the implementation of this amendment, only Free-Trade-Zone (FTZ) aluminum warehouses, as licensed by the U.S. Customs and Border Protection, are approved by the Exchange for the storage and delivery of aluminum against a COMEX aluminum warrant. In all cases, delivery will occur at the settlement price on the day the Notice of Intention to Deliver is posted, without any modification to reflect duty paid or duty unpaid status. This revised process is consistent with the treatment on other exchanges, where both duty paid and duty unpaid metal can be delivered into a warehouse for delivery against a contract. This approach provides flexibility to the delivery choices available to the seller.

Material that is duty paid is homogeneous to material that is duty unpaid with the Exchange-approved FTZ warehouse. Any duty that has been paid forms part of the cost basis of the metal, but does not affect the physical nature of the metal or its value to a buyer. Any difference in cost basis should not be considered as a factor to separate the material in its eligibility to be delivered against a contract. Following the rule amendment, the contract will continue to require delivery of metal at the prevailing delivery price. As with the current duty paid contract, a seller may perceive that a particular lot of metal commands a premium to the market, or may wish this were so. This belief may influence their choice of the specific lot to take to delivery, but in itself this is a belief that has not been tested in the market.

As both duty paid and duty unpaid material is eligible for delivery, the Exchange has determined to include warehouse stocks that are both duty paid and duty unpaid, and conform to Exchange specifications in its analysis of deliverable supply. In the US, the amount of duty that would be payable on material entering the country depends on various factors including country of origin, declared value, destination (Free Trade Zone), and commodity being imported. In some cases, the amount of duty payable is zero. This is also the case for material manufactured in the US. Where there are eligible warehouse stocks of material that has had an amount of duty prepaid, this material is eligible for delivery at the unmodified settlement price, and is consistent with eligible stocks for which no duty has been paid or for which no duty is required. Therefore, all stocks of either duty paid or duty unpaid status shall be considered eligible in the assessment of deliverable supply.

As noted above, warehouses approved for the storage of aluminum for delivery against the Aluminum Futures contract must be located in a Free Trade Zone (FTZ). This requirement is necessary for the approved warehouses to be able to accept and store duty unpaid aluminum. There are two approved warehouses currently approved for delivery against the Aluminum Futures contract which are not located in an FTZ, Metal Ox Warehousing and Engelhart Warehousing (US) LLC, both located in Detroit. These Exchange approved warehouses have decided to withdraw their regularity status from the Exchange list of approved aluminum warehouses.

### **COMEX Warehouse Stocks**

As a physically delivered metal futures contract and in accordance with Appendix C of Part 38, the deliverable supply will be based on the inventory levels of aluminum stocks residing in Exchange approved warehouses. The warehouses that are approved for storage of aluminum are C. Steinweg (Baltimore), Inc. (Baltimore), Henry Bath LLC (New Orleans), Engelhart Warehousing (Owensboro and Detroit), Access

World (New Orleans, Baltimore, and Owensboro), Kodiak Warehouse (Toledo and New Orleans area), MetalStore LLC (Detroit area), and Metal Ox (Detroit).

### Inventory and Capacity of Exchange Approved Warehouses

Table 3 below provides the inventory levels of aluminum currently stored at Exchange approved warehouses in each location. The Exchange determined to only include material currently in store at Exchange approved warehouses as the basis of deliverable supply for Aluminum Futures.

**Table 3. Approved Warehouses for Aluminum Futures**

Warehouse Location	Aluminum Inventory at Exchange-approved Warehouses (MT) as of June 11, 2018	Aluminum Inventory at Exchange-approved Warehouses (in contract units) as of June 11, 2018
Detroit	1,254	50
New Orleans	0	0
Owensboro	4,522	181
Toledo	3,607	144
Baltimore	0	0
<b>Total</b>	<b>9,383</b>	<b>375</b>

Source: CME Group

Table 4 below shows the average monthly registered, eligible and total aluminum inventory in COMEX approved warehouses for the storage of aluminum deliverable against the Aluminum Futures contract.

**Table 4. Average Monthly Aluminum Inventory in Exchange Approved Warehouses**

Month	Registered	Eligible	Total
Jun-15	2,864	24,662	27,527
Jul-15	9,171	30,516	39,687
Aug-15	16,503	31,385	47,888
Sep-15	17,436	29,853	47,289
Oct-15	17,397	30,717	48,114
Nov-15	18,005	32,062	50,067
Dec-15	17,674	29,624	47,298
Jan-16	19,373	24,516	43,888
Feb-16	20,852	20,246	41,098
Mar-16	20,443	15,497	35,940
Apr-16	19,869	15,363	35,232
May-16	17,425	20,642	38,067
Jun-16	15,056	19,405	34,462
Jul-16	9,340	17,675	27,015

Aug-16	4,367	16,250	20,617
Sep-16	3,525	12,981	16,506
Oct-16	2,487	10,925	13,412
Nov-16	2,075	10,954	13,029
Dec-16	2,898	14,794	17,692
Jan-17	2,958	19,843	22,801
Feb-17	2,482	19,584	22,066
Mar-17	4,568	23,715	28,283
Apr-17	5,165	29,699	34,863
May-17	6,215	31,324	37,539
Jun-17	5,756	32,200	37,956
Jul-17	5,773	29,699	35,472
Aug-17	6,330	26,514	32,844
Sep-17	3,845	28,004	31,849
Oct-17	2,935	25,606	28,542
Nov-17	1,381	36,786	38,166
Dec-17	856	40,644	41,500
Jan-18	125	50,318	50,444
Feb-18	51	60,874	60,925
Mar-18	51	58,762	58,813
Apr-18	51	23,314	23,365
May-18	51	10,288	10,339
Jun-18*	51	9,418	9,469
3 Year Avg.	7,714	26,072	33,786

\*Through June 11, 2018

Source: CME Group

As of June 11, 2018, aluminum inventories held in Exchange approved warehouses totaled 9,383 metric tons, the equivalent of 375 Aluminum Futures contract equivalents. A significant decline in aluminum inventory in Exchange approved warehouses occurred on April 10, 2018. A revocation of several brands approved for delivery against the Exchange's Aluminum Futures contract, the public notice for which can be found [here](#) resulted in a 79% decrease in Exchange inventories.

The two warehouses, Engelhart Warehousing (US) LLC and Metal Ox Warehousing, which will withdraw from regularity have 1,104 metric tons and 99 metric tons, respectively, in inventory as of June 11, 2018. Removing this inventory reduces the level to 8,180 metric tons, equivalent to 327 Aluminum Futures contract equivalents.

The current level of inventory in the Exchange's approved warehouses for Aluminum is significantly lower than the three-year average as indicated in Table 4. The current spot month position limit of 100 contracts would represent 30.58% of current deliverable supply at Exchange approved warehouses. The generally accepted practice, however, is to use the most current three-year average of the aluminum inventory in Exchange approved warehouses. The most current three-year average is 33,786 metric tons which represents 1,351 contract equivalents. The current spot month position limit of 100 contracts would represent 7.40% of deliverable supply at Exchange approved warehouses.



## **Exhibit B**

(additions are underscored)

### **Chapter 107**

#### **Aluminum Futures Contract**

##### **107100. SCOPE OF CHAPTER**

This chapter is limited in application to Aluminum futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange. The provisions of these rules shall apply to all aluminum bought or sold for future delivery on the Exchange. The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. For purposes of these rules, unless otherwise specified, times referred to herein shall refer to and indicate New York time.

##### **107101. CONTRACT SPECIFICATIONS**

The aluminum for delivery on the futures contract shall be twenty-five metric tons (25 MT) with a weight tolerance of 2% either higher or lower and must be of an Exchange approved brand. Aluminum meeting all of the following specifications shall be deliverable in satisfaction of futures contract delivery obligations under this rule:

Eligible aluminum must consist of primary aluminum meeting all of the requirements of the P1020A in the North American and International Registration Record entitled “International Designation and Chemical Composition Limits for Unalloyed Aluminum” (revised March 2007), or its latest revision. If the North American and International Registration Record adopts a change in the standard specifications for the aforementioned deliverable grade and such change is adopted and confirmed by the Exchange, aluminum conforming to the change so adopted, as well as aluminum conforming to the previous specifications if placed in an Exchange approved facility prior to the date of the adoption and confirmation by the Exchange of the new specifications, shall be deliverable against the Aluminum futures contract. A Certificate of Analysis and Certificate of Origin must accompany all metal delivered into an Exchange approved facility. The Certificate of Origin must be kept on file at the Exchange approved facility.

Aluminum Futures is a duty unpaid contract. Eligible aluminum shall be either duty paid or duty unpaid.

Aluminum must conform to one of the following shapes:

- a. Sows weighing up to 787.5 kgs.;
- b. T-bars weighing up to 787.5 kgs.; or
- c. Ingots weighing from 9 kgs. to 26 kgs. Ingots are to be secured in bundles suitable for stacking not to exceed 2 metric tons (2 MT) per bundle. There is one smelter (heat) number per bundle.

Each warrant shall be made up exclusively of the deliverable grade in one of the shapes listed above and must derive from one smelter. The brand must be permanently marked on each piece of aluminum delivered in fulfillment of the contract. The cast number must

be permanently marked on tbars and sows and labeled on each bundle of ingots of aluminum delivered in fulfillment of the contract.

1. Eligible aluminum must consist of any of the Exchange approved brand marks, as provided in Chapter 7, current at the date of delivery of the contract, provided, however, a warrant issued for aluminum shall be from a single approved brand.
2. Aluminum may be delivered only from an Exchange approved facility.
3. Deliveries shall be made without any allowance for freight.
4. The aluminum must be weighed by an Exchange approved weighmaster. A weight certificate shall be issued by an Exchange approved weighmaster.
5. An Exchange approved facility must declare that the aluminum meets the specification for delivery in fulfillment of an Aluminum futures contract. Upon request from the Exchange approved facility, the seller's clearing member shall provide verification that the aluminum is of an Exchange approved brand meeting the specification of the contract, unless received directly from the producer of an Exchange approved brand.
6. The electronic certificate shall reference a signed declaration of the Exchange approved facility, as to the origin of the aluminum and the grade thereof; such declaration to be in the following form and maintained on file at the Exchange approved facility.

This is to certify that the brand of aluminum covered by Warrant #..... issued by ..... (Facility) is the product of ..... (Producer) an Exchange approved producer for delivery of aluminum against the Commodity Exchange, Inc., Aluminum futures contract and conforming to the specifications for P1020A pursuant to the rules of the Exchange.

7. Any insurance coverage for registered aluminum shall be the responsibility of the warrant holder.

## **107102. TRADING SPECIFICATIONS**

Trading in Aluminum futures is regularly conducted in all calendar months. The number of months open for trading at a given time shall be determined by the Exchange.

### **107102.A. Trading Schedule**

The hours of trading for shall be determined by the Exchange.

### **107102.B. Trading Unit**

The contract unit shall be twenty-five metric tons (25 MT).

### **107102.C. Price Increments**

Prices shall be quoted in multiples of twenty-five cents (\$0.25) per metric ton. Price shall be quoted in dollars and cents per metric tons.

### **107102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

### **107102.E. Termination of Trading**

No trades in Aluminum futures deliverable in the current month shall be made after the third last business day of that month. Any contracts remaining open after the last trade date must be either:

- (A) Settled by delivery which shall take place on any business day no earlier than the first business day of the delivery month or any subsequent business day of the delivery month and shall be completed no later than the last business day of the delivery month; or
- (B) Liquidated by means of a bona fide Exchange for Related Position (“EFRP”) pursuant to Rule 538. An EFRP is permitted in an expired futures contract until 12:00 p.m. on the business day following termination of trading in the expired futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**107102.F. Special Price Fluctuation Limits**

At the commencement of each trading day, the contract shall be subject to special price fluctuation limits as set forth in Rule 589 and the Special Price Fluctuation Limits Table in the Interpretations & Special Notes Section of Chapter 5.

**107103.-107. [RESERVED]**

**107108. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any document or instrument delivered pursuant to these rules.

**107109. WARNING**

Any market participant taking physical delivery is advised that this metal may contain crevices and hidden recesses holding entrapped moisture. The metal should be handled and processed with this possibility in mind. Entrapped moisture may cause an explosion if the metal is introduced into a melting-furnace without proper drying.