



Via Electronic Mail

August 9, 2012

Mr. David Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, D.C. 20581

SUBJECT: Product Certification

Dear Mr. Stawick:

Pursuant to Commodity Exchange Act ("CEAct") Section 5c and Commodity Futures Trading Commission ("Commission") Regulation 40.2(a), Minneapolis Grain Exchange, Inc. ("MGEX") hereby certifies that the following attached regulations containing the terms and conditions for Apple Juice Concentrate ("AJC") futures and options, the regulations and forms governing the trading of AJC futures and options, and the regulations and forms on the eligibility and requirements of warehouses as facilities for the physical delivery of AJC, comply with the CEAct and the Commission regulations thereunder. MGEX further certifies that notice of pending product certification with the Commission and a copy of this submission has been posted on the MGEX website at the following address <http://www.mgex.com/regulation.html>.

Also attached is a Concise Explanation and Analysis of the AJC product including a description of how the product complies with relevant core principles. The explanation contains a brief overview of the cash market, a summary of how the contract specifications were derived, an analysis of the market demand and economic need for the AJC contract, and a summary of the development of the AJC contract. Finally, a Cash Market Overview and Analysis of Deliverable Supply is attached.

Pursuant to its authority under MGEX Rule 210.01., the Board of Directors unanimously approved adoption of the attached regulations and the trading of AJC futures and options. There were no substantive opposing views expressed by the Board. The products will list for trade on the MGEXpress® trading platform hosted by CME Group Globex® commencing August 13, 2012. If there are any questions regarding this submission, please contact me at (612) 321-7169. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Layne G. Carlson". The signature is written in a cursive style with a large, sweeping flourish at the end.

Layne G. Carlson
Corporate Secretary

Enclosures
cc: Thomas J. Bloom

The following chapters of regulations and forms are to be added to the MGEX Rulebook.

CHAPTER 54
APPLE JUICE CONCENTRATE FUTURES REGULATIONS

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CHAPTER 54 APPLE JUICE CONCENTRATE FUTURES REGULATIONS

5400.00. AUTHORITY.

Trading in Apple Juice Concentrate ("AJC") futures contracts may be conducted under such terms and conditions as the Board of Directors shall determine by Rule, Regulation or Resolution, subject to the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission ("CFTC") regulations promulgated thereunder.

5401.00. SCOPE OF CHAPTER.

This Chapter of Regulations has been duly adopted by the Board of Directors and is limited in its application to futures trading of AJC. Electronic trading, clearing, settlement, delivery and any other matters not specifically covered herein shall be governed by the MGEX Rules and Regulations, or otherwise delegated to the Exchange to establish policies and procedures that implement the MGEX Rules and Regulations.

5402.00. APPLE JUICE CONCENTRATE FUTURES CONTRACT SPECIFICATIONS.

The AJC futures contract shall be based on product with the following specifications:

BRIX: Minimum 70.0 degrees

ACID: 1.0 to 2.2% wt/wt as malic acid

COLOR: >40% transmittance @ 440nm (See below for further information on color)

TURBIDITY: \leq 3 NTU

YEAST: \leq 500 cfu/ml

THERMODURIC ACIDOPHILIC BACILLI (TAB): <1 cfu/10ml

PATULIN: Maximum 50 ppb @ single strength

TOTAL PLATE COUNT (TPC): <1,000 cfu/ml

FLAVOR: Characteristic of ripe, mature apples with no off flavors or aromas.

MAXIMUM STORAGE TEMPERATURE: 0° Fahrenheit after USDA sampling

COUNTRY OF ORIGIN: AJC shall have accompanying documentation, by drum and/or bin, indicating its country of origin. Only one country of origin and a single same day production lot is permitted per futures contract.

DELIVERY: Delivery shall be by 55 gallon drums or 275 to 325 gallon bins

DELIVERY LOCATIONS: The Exchange-approved cold storage warehouses with facilities located on the mainland coasts of the United States ("Regular" warehouses).

5402.01. DELIVERY LOCATION PREMIUM OR DISCOUNT.

There are no Exchange-approved premiums or discounts for product specifications or for delivery location.

5402.02. EXCHANGE FOR PHYSICAL AND EXCHANGE FOR RISK.

Exchange for physical ("EFP") and exchange for risk ("EFR") transactions are permitted in this futures contract if executed pursuant to [Rule 719.00](#).

5403.00. CONTRACT TRADING UNIT.

The unit of trading shall be one thousand, eight hundred (1,800) gallons (U.S.) of AJC that meets the product specifications of [Regulation 5402.00](#).

5404.00. DELIVERY.

A. AJC Product Delivery Requirements

AJC product is only eligible for delivery if all requirements of the MGEX Rules and Regulations are met, including but not limited to the following conditions:

- 1) There is no hold on the AJC product by any governmental entity with appropriate jurisdiction which prohibits the AJC product from leaving the Regular warehouse;
- 2) The AJC product is accompanied by a valid Certificate of Analysis (COA);
- 3) The AJC product is labeled per drum or bin and such label includes, but not limited to, the amount of gallons (or liters) contained in the drum or bin;
- 4) The AJC product is accompanied by a valid billing or drum manifest;
- 5) The AJC product owner can be identified;
- 6) The AJC product has a passing, valid USDA Letter Report which has a sampled date of no more than eleven months prior to the applicable delivery month;
- 7) The AJC product has a color grade of at least 41 points throughout the delivery month or 42 points throughout the month before the delivery month;
- 8) Any AJC futures contract specification for the AJC product represented on the COA, label or any other document required for delivery must meet the AJC futures contract specification requirements (units of measurements not defined in MGEX contract specifications may be disregarded); and
- 9) The AJC product is issued using a valid negotiable warehouse receipt which meets all requirements for delivery on the AJC futures contract.

B. Delivery Procedures

1. General

The AJC futures contract may be settled by physical delivery of a negotiable warehouse receipt approved by the Exchange along with a passing, valid USDA Letter Report and Certificate of Analysis.

All deliveries of AJC shall be made through MGEX pursuant to procedures and on such forms (either paper or electronic) prescribed by the Exchange. Delivery procedures may be codified within a manual and disseminated to Clearing Members and Regular warehouses. All parties involved in the delivery process must follow such procedures, including any notices, memos and the like issued by the Exchange. Further, the Exchange may modify the procedures and amend such forms, and implement such changes, as it determines necessary for the delivery process. Procedures, forms and changes shall be consistent with the MGEX Rules and Regulations.

2. Redelivery

Redeliveries during the same delivery month are permitted but only pursuant to Exchange procedures. A buyer taking delivery may not initiate a redelivery until payment has been made and the original warehouse receipt and a copies of the Certificate of Analysis and the passing, valid USDA Letter Report has been received by the buyer's Clearing Member.

3. Authority, Obligation and Liability

a. MGEX

MGEX shall have authority to take any action it determines in its sole discretion is necessary to ensure the integrity of the delivery process. Such actions include, but are not limited to, cancellation of a delivery, suspension of regularity, product replacement, demand for alternate delivery, or any actions permitted by the MGEX Rules and Regulations, Exchange procedures or law. The Exchange will not permit any party to abuse, disrupt, interfere or manipulate, or attempt to abuse, disrupt, interfere or manipulate the delivery process. The Exchange shall not be liable to any party for actions taken by the Exchange in good faith to protect the delivery process or legitimacy of the AJC futures contract. Parties may utilize MGEX Arbitration Rules to resolve disputes between parties. The Exchange shall not be liable for any damages or losses resulting from the arbitration process timeline or from decisions of the Arbitration Panel.

The Exchange is not liable to any party for performance on any warehouse receipt. The Exchange is not liable to any party for the quality of any AJC being stored, delivered or loaded out. Further, the Exchange is not liable to any party for product recalls of AJC, the use of AJC, or for products containing AJC.

MGEX has no liability for the use of any negotiable warehouse receipts used for delivery against the AJC futures contract.

b. Clearing Members

The Clearing Member must follow the MGEX Rules and Regulations, including but not limited to Exchange delivery procedures, deadlines and forms necessary to effect delivery. A Clearing Member may not submit a Notice of Intention to Deliver Form to MGEX unless it has in its possession the original warehouse receipt as well as a copy of the Certificate of Analysis and a passing, valid USDA Letter Report for the product named on the receipt. Copies of all three documents must be submitted to MGEX at the same time as the Notice of Intention to Deliver Form. The Clearing Member bears the risk of timely obtaining the necessary documents. This potential liability includes costs and delays resulting from inaccurate information provided to MGEX as well as Exchange actions taken in its discretion to ensure delivery, protect the delivery process, mitigate damages or correct misinformation provided to MGEX. Further, all storage charges must have been paid up or prepaid as described in the MGEX Rules and Regulations.

c. Regular Warehouses

Warehouses deemed Regular must follow the MGEX Rules and Regulations, including but not limited to Exchange procedures, deadlines and forms necessary to effect delivery. The Regular warehouse is responsible for all handling, storage, and identification, down to the drum and bin as necessary, in accordance with Exchange procedures in order to preserve product identity. In addition to any obligation provided for in the MGEX Rules and Regulations, the Regular warehouse is responsible to exercise the degree of care required by law and as a reasonably prudent person while the product is in its possession.

d. Market Participants

AJC market participants shall be responsible for following the MGEX Rules and Regulations, deadlines and forms necessary to effect delivery.

C. AJC Product Color Degradation

Provided the AJC product is properly stored and sealed or resealed, the color grade shall be deemed to degrade one (1) point on the first of every month after the sample is taken and the product has been placed in storage at 0° Fahrenheit.

D. USDA Letter Report

A passing, valid USDA Letter Report is required for delivery on the AJC futures contract. A USDA Letter Report is a document issued by the USDA Agricultural Marketing Service containing the lab test results from a sample taken from an identified lot. A passing USDA Letter Report means that there are no failures on the AJC futures contract specifications. Provided the product is properly stored (as described below), a passing USDA Letter Report shall be valid for a period of up to one year from date the sample is taken (or the day prior in case of a sample date of February 29th). A Letter Report may not be used to effect a delivery on the AJC futures contract in the month the Letter Report expires.

A single sample (and the USDA Letter Report) cannot represent more than 40,000 gallons of AJC Product and must have been stored and identified in accordance with the MGEX Rules and Regulations. If a sample fails a test as documented by the USDA Letter Report, the sampled drum or bin may not be used to deliver on an AJC futures contract and the Regular warehouse must clearly identify the drum or bin as undeliverable. The remaining portion of the USDA testing lot may be retested; however, a single sample cannot represent more than 10,000 gallons of AJC product. Should a subsequent 10,000 gallon USDA testing lot fail, the tested drum or bin cannot be used to deliver on an AJC futures contract and the Regular warehouse must clearly identify the drum or bin as undeliverable. Any further retests must be conducted in 1,800 gallon (within acceptable variance) denominations. If the tested drum or bin in an 1,800 gallon (within acceptable variance) denomination fails, none of the drums or bins within that 1,800 gallon lot may be used to deliver on an AJC futures contract.

No USDA Letter Report can be destroyed. The test results and USDA Letter Report are not appealable. All USDA Letter Reports must be retained by the Regular warehouse for at least ten (10) years.

The USDA Letter Report will be eligible to be used to satisfy the USDA testing requirement for any 1,800 subplot from the USDA tested AJC product until the 1,800 subplot is retested or the original USDA Letter Report expires or becomes invalid.

Once a USDA Letter Report has expired, or prior to expiration, the owner of the negotiable warehouse receipt may request another sample be taken. If a subsequent USDA Letter Report is issued, it must be identified and a new negotiable warehouse receipt must be issued. The Regular warehouse must cancel the previous negotiable warehouse receipt prior to issuing the new negotiable warehouse receipt.

Further, neither the Regular warehouse, nor current owner, nor any previous owner, nor MGEX can warrant the AJC product meets the USDA Letter Report results at the time of load out or at destination. Samples and testing done by a party does not change the results of the USDA Letter Report, does not change the value of the product delivered, and does not alter the delivery process under the MGEX Rules and Regulations.

The sampling process and required conditions for extracting a sample shall be determined by USDA. Regular warehouses must cooperate and assist as necessary.

E. Warehouse Receipt

Only a negotiable warehouse receipt (in a form acceptable to MGEX) can be used for delivery on the AJC futures contract. Delivery on an AJC futures contract shall be made by the delivery of a negotiable warehouse receipt issued by a Regular warehouse. To effect a valid delivery, each negotiable warehouse receipt must be properly issued, endorsed and representative of the AJC product listed on the receipt. The product represented on the receipt also must be in the possession of the issuing Regular warehouse at all times from issuance until cancellation of the receipt. Further, such receipt shall constitute a warranty of the genuineness of the AJC product and of good title thereto, but shall not constitute a guaranty, by MGEX, the Regular warehouse or any previous owner of the receipt, that the product shall not suffer shrinkage, decay, evaporation or any other loss that is ordinary or usual for that product (such as color).

See Form 54-04.00.C. for an example of an acceptable negotiable warehouse receipt. All applicable sections on the receipt must be accurately and fully completed with appropriate authorized signatures. An incomplete receipt will render the receipt unusable for delivery on the AJC futures contract. Except for the endorsement, all information on the negotiable warehouse receipt must be entered by the Regular warehouse. Except for choice of law provisions, the laws of the state of Minnesota shall govern any negotiable warehouse receipt issued on AJC product and used to deliver on the AJC futures contract. MGEX has no liability for the use of any warehouse receipt issued for AJC product, whether used for delivery against the AJC futures contract or not.

Any negotiable warehouse receipt must contain and identify 1,800 gallons (within allowable variance), and must consist of either 32 fifty-five gallon drums or 6 bins containing between 275 and 325 gallons each. Variances are permitted as described in this Chapter. Further, such negotiable warehouse receipt shall identify the specific drums or bins by lot, subplot or otherwise.

Only one contract trading unit may be listed on a single individually numbered negotiable warehouse receipt used for delivery against an AJC futures contract.

F. Certificate of Analysis (COA)

Only AJC product which has a COA may be deliverable on the AJC futures contract. This COA must include a unique COA lot number indicating the production run, the country of origin, and the unit type (drum or bin).

The COA (or a copy thereof) must be retained by the Regular warehouse and the AJC product owner, and must be provided to any subsequent buyer of AJC no later than the same day the warehouse receipt and USDA Letter Report are transferred to the buyer. The Regular warehouse must retain a copy of the Certificate of Analysis for at least ten (10) years.

G. Manifest

Only AJC product which has a billing or drum manifest may be deliverable on the AJC futures contract. The billing or drum manifest must identify the COA associated with the AJC product.

H. Drum or Bin Label

Only AJC product which is labeled on every drum or bin may be deliverable on the AJC futures contract. The label must, at a minimum, provide the gallons (or in liters) of the AJC product in each drum or bin.

I. Payment

A buyer who has duly received a Delivery Notice from the Exchange shall present the Delivery Notice, along with full payment, to the seller's Clearing Member. Payment shall be made by 1:00 pm Central Time on the business day following receipt of the Delivery Notice. (Payment and delivery times may be modified by the Exchange and communicated by notice and/or posting.) Immediately upon payment, seller shall provide buyer the original negotiable warehouse receipt, and copies of the USDA Letter Report and Certificate of Analysis. Delivery will be considered complete upon payment and transfer of a properly endorsed negotiable warehouse receipt and supporting documents including the passing and valid USDA Letter Report and COA. Further, the same day payment is made (also known as delivery day), the Clearing Member for both the buyer and seller must each notify the Regular warehouse of the change in ownership of the receipt. Buyer's and seller's respective Clearing Members shall be responsible for ensuring a notice of transfer has been timely provided to the Regular warehouse.

Failure by the buyer to make full payment as required shall constitute a default. Upon default, seller is entitled to damages in accordance with [Rule 825.00](#).

J. Storage charges

Before a negotiable warehouse receipt can be delivered, the owner must pay all unpaid accumulated storage charges (if any) up to and including the date the warehouse receipt is delivered to the buyer. The storage rate must be stated on the negotiable warehouse receipt which is used to determine the prorated charges between buyer and seller. Storage charges may be in dollars per drum, dollars per bin, or dollars per whole pallet. The owner of the receipt shall be responsible to prepay storage charges according to the receipt, and such rate must be consistent with the Regular warehouse schedule or tariff.

Prepaid storage charges for days subsequent to the delivery day must be disclosed by the seller and shall be prorated to the buyer.

Collection and settlement of storage charges shall be the responsibility of the Clearing Members involved. Storage charges shall be deemed by MGEX to have been paid when MGEX receives a Notice of Intentions to Deliver Form.

The owner of the warehouse receipt shall be responsible for all expenses associated with ownership of the product including, but not limited to, the cost of all samples and tests, storage fees, insurance, transportation, and load out. USDA testing fees shall be publicly available. Regular warehouse fee schedules or tariffs shall be provided to the Exchange and available to the public.

K. Endorsement

In order to effect delivery, the owner or their agent (which may be their Clearing Member) of a properly issued negotiable warehouse receipt under the MGEX Rules and Regulations must endorse the negotiable warehouse receipt. Other than words of negotiability, there is no specific required form or language for endorsement. However, the date through which storage

charges have been paid and the current owner's name must be noted. Further, if an agent endorses on behalf of the owner, the endorsement must state such.

Notice must be timely given to the Regular warehouse issuing the negotiable warehouse receipt by both the endorser and the recipient of the negotiable warehouse receipt (or their respective Clearing Members) that the negotiable warehouse receipt has been transferred.

L. Insurance

A Regular warehouse shall carry product insurance coverage on stored AJC product that is common in the cold storage industry for a facility storing AJC product. The lack of coverage or the amount of coverage, as well as any insurance rate applicable to the Regular warehouse must be disclosed to the owner of the negotiable warehouse receipt so as to enable the owner to insure the product or obtain additional insurance if they wish. Additionally, the parties may make such other arrangements as may be mutually agreeable. If no product insurance is provided, it must be clearly stated on the negotiable warehouse receipt.

However, pursuant to [Regulation 5601.00.](#), the Regular warehouse shall carry legal liability coverage for the loss of goods. The amount of such coverage shall be stated on the negotiable warehouse receipt.

M. Load Out

The owner of a negotiable warehouse receipt may call for load out at any time, provided the owner follows the Regular warehouse's standard protocol for proper notice, payments, conveyance of transportation, and schedule for pick up.

A Regular warehouse shall not be obligated to load out against a negotiable warehouse receipt received via the delivery process until all storage charges have been paid. All other charges related to load out shall be paid by the product owner requesting load out. However, a Regular warehouse cannot double charge the product owner requesting load out for in/out handling charges already paid by the original owner and identified on the warehouse receipt.

Load out shall be pursuant to the MGEX Rules and Regulations; however, the owner of the negotiable warehouse receipt may make alternative arrangements (non-standard protocol) for load out with the Regular warehouse if both parties mutually agree. However, such non-standard protocol shall be outside of the MGEX Rules and Regulations.

The AJC product loaded out against a negotiable warehouse receipt must be the same product identified on the receipt. Product may be substituted by mutual agreement between the Regular warehouse and receipt owner. However, such substituted product must be owned or obtained by the Regular warehouse, and may not be represented by another warehouse receipt or USDA Letter Report. Such substitution shall be outside of the MGEX Rules and Regulations.

N. Variances

An AJC futures contract represents 1,800 gallons. Any negotiable warehouse receipt used to deliver on the AJC futures contract must contain and identify 1,800 gallons (within allowable variance) and consist of either 32 fifty-five gallon drums or 6 bins, each able to contain between 275 to 325 gallons.

A variance of no more than 200 gallons in actual quantity is permitted and the actual amount must be indicated on the face of a negotiable receipt eligible to be delivered against an AJC futures contract. Each drum or bin must be substantially filled. For example, 6 bins of 275

gallons each representing 1,650 gallons or 6 bins of 325 gallons each representing 1,950 gallons may be delivered.

The amount paid for any underage or overage shall be price adjusted accordingly.

O. Drum or Bin Condition

Pursuant to the tariff or procedures, a Regular warehouse may replace or move product from a damaged drum or bin to a good drum or bin. A Regular warehouse must document such movement and inform the owner if they intend to charge the owner for such action.

Drums and Bins containing AJC are to be in the following size or condition:

Drum Condition and Liner Specifications – Contract units of AJC product delivered against a futures contract shall be in 55 gallon rated capacity steel drums with a minimum tare weight of 40 lbs. per drum (includes drum, lid, liners and clamp ring). Height of each drum shall be between 32-36 inches. Each four drums on a pallet will be of comparable height. Variance between drums on the same pallet cannot exceed ½ inch. The drums should be new or properly reconditioned containers. Each poly liner (2-minimum) must be a minimum of 2 millimeters thickness, no evidence of breakage and tied in a manner consistent with Good Manufacturing Practices. Poly liners must have 6 inches remaining after bag is closed or tied. Each drum shall be numbered in a manner in which it is specifically identified. Open top drums must be sealed, or resealed if tested, with tamper evident seals defined as a seal constructed in such a way it can be used only once, is not reusable and can be easily noticed if tampered with, is legible, uniquely identified, fabricated from non-corrosive and appropriate materials. Seal chain of custody documentation must accompany any replaced seals.

Bin Condition – If contract units of AJC product delivered against a futures contract are in bins, the bins may be in cardboard, metal, plastic or wood containers, the size and shape of which may vary. Any bin used for delivery used against AJC futures contract must be of quality used in the normal course of business in the apple juice concentrate industry.

5405.00. MINIMUM PRICE FLUCTUATION.

The minimum price fluctuation shall be one-quarter cent (\$0.0025) or four dollars fifty cents (\$4.50) per contract. All prices shall be quoted in U.S. dollars per U.S. gallon.

5406.00. TRADING MONTHS AND HOURS.

The months available for trading in AJC futures, the number of months available for trade at one time and the hours of trading shall be determined by the Exchange.

Trading in AJC futures shall be permitted in the current delivery month plus any month in the January, March, May, July, September, November delivery cycle which falls within the next succeeding twenty-three (23) months. The next delivery month in the sequence shall replace the expiring delivery month as of the close of business on the last business day of the expiring delivery month.

The hours of trading in AJC futures shall be from seven o'clock (7:00) a.m. to one-ten o'clock (1:10) p.m. All times shall be Central Time.

5406.01. OFFICIAL CLOSING PERIOD.

The official closing period shall be from 1:09:00 p.m. to 1:09:59 p.m. Central Time.

5407.00. DAILY PRICE LIMITS.

Daily price limits shall be set by the Exchange. The daily price limits shall be one dollar (\$1.00) per gallon. Trading is prohibited during any business day at a price outside the limit above or the limit below either the settlement price of AJC futures on the previous business day, or the first trade executed for an unopened contract month.

Should two or more of the first four contract months close limit bid or limit offer, the daily price limits for all contracts months shall increase by fifty cents (\$0.50) the next business day and remain there as long as any one of the first four contract months closes at one dollar (\$1.00) or more above or below the previous business day's settlement price.

However, there shall be no price limits on the delivery AJC futures contract month commencing the first business day after expiration of non-serial options on the delivery month.

5408.00. TRADING DAY.

A business day on which trading of AJC futures is permitted. Trading days shall be determined by the Exchange. The last trading day shall be the business day preceding the fifteenth calendar day of the delivery month.

The last trading day that an AJC futures contract may be exchanged for, or in connection with, an EFP or EFR transaction shall be the sixth business day following the last trading day of the delivery month.

After the last trading day of the AJC futures contract, EFP and EFR transactions are permitted only for the purpose of liquidating futures positions. Such transactions shall not be permitted to initiate or establish new futures positions.

5409.00. NOTICE DAY.

A business day on which a Delivery Notice may be issued by the Exchange. Notice days shall be determined by the Exchange. The first notice day shall be the last business day of the month preceding the delivery month. The last notice day shall be the business day preceding the last delivery day.

5410.00. DELIVERY DAY.

The business day on which a negotiable warehouse receipt must be paid for by the buyer and the seller must issue copies of the COA and passing, valid USDA Letter Report is called the delivery day. Delivery days shall be determined by the Exchange. The last delivery day shall be the seventh business day following the last trading day.

5411.00. POSITION LIMITS.

- A. **Limits.** Position limits shall be determined by the Exchange. However, the position limits shall not apply to positions which are *bona fide* hedging transactions or positions as defined by MGEX. Additionally, any person with *bona fide* hedging positions must report such activity pursuant to MGEX or CFTC Regulations or procedures and in such manner and format, and at such times, as may be required.

No person shall own or control in excess of one-hundred (100) contracts net long or short in the delivery month commencing two business days prior to the delivery month, one-thousand (1,000) contracts net long or

short in any single month, or one-thousand (1,000) contracts net long or short in all contract months combined.

- B. **Compliance.** The Exchange may direct any person owning, controlling or carrying a position for another person in excess of the limits set forth in this Regulation to liquidate or otherwise reduce the position to achieve conformity with this Regulation. Further, no person may exceed the limits at any time during the trade day. Other than *bona fide* hedging positions, positions in excess of the limits shall be presumed to be a violation. However, for any futures position that exceeds position limits for passive reasons such as a market move or exercise assignment, the person shall be allowed one (1) business day to liquidate the excess position without being considered in violation of the limits.
- C. **Enforcement.** The person owning, controlling or carrying a position, as well as the account holder, FCM, or Clearing Member as the case may be, shall maintain adequate books and records, available to the Exchange, upon request, which disclose the identity of and positions held by any person that owns or controls such position. The person owning, controlling or carrying a position, as well as the account holder, FCM and Clearing Member may be held accountable for any violation of the limits. The Department of Audits and Investigations may take enforcement action against any or all of the parties, whether or not each had actual knowledge of the position or a violation.

5412.00. EXEMPTION FROM POSITION LIMITS.

To be eligible for an exemption under this Regulation, an applicant must submit a written request to the Department of Audits and Investigations. Such request shall include the following:

- A. a description of the size and nature of the proposed transactions;
- B. information which will demonstrate that the proposed transactions are *bona fide* hedging transactions;
- C. a statement indicating whether the person on whose behalf the request is made (i) maintains positions in the futures contract for which the exemption is sought with any other account holder or owner, and/or (ii) has made a previous or contemporaneous request pursuant to the Regulation through another applicant, and if so, the relationship of the information set forth in such requests;
- D. a statement that the intended transactions will be *bona fide* hedges;
- E. a statement that the applicant will immediately supply the Exchange with any material changes to the information submitted pursuant hereto;
- F. such further information as the Exchange may request, including the daily, weekly or periodic filing of any documents or reports.

Within five (5) business days of the submission of the information set forth above, the Department of Audits and Investigations shall notify the applicant whether the exemption has been granted and the limitations placed thereon. An exemption will remain in full force and effect until (i) the applicant or person on whose behalf the request is made requests a

withdrawal; or (ii) the Exchange revokes, modifies or places further limitations thereon. At any time, MGEX may limit *bona fide* hedging positions, and deny or limit any request for exemption from position limits which MGEX determines in its sole discretion are not in accord with sound commercial practices or exceed the established or permitted amount which may be liquidated in an orderly fashion.

When applied to the AJC contract, MGEX will use as a guide, but not be limited by, the CFTC definition of a *bona fide* hedging position as described in Commission Part 151, specifically 151.5, or elsewhere, as applicable.

5413.00. AGGREGATION OF POSITIONS.

In determining whether any person has exceeded the position limits, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly holds positions or controls trading shall be included with the positions held by such person. Such limits upon positions shall apply to positions held by two (2) or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person. MGEX will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC Part 151, specifically 151.7, or elsewhere, as applicable.

5414.00. REPORTABLE POSITIONS.

A position of twenty-five (25) or more AJC futures on this Exchange, long or short, in any one (1) month shall be the reportable position level. All such positions shall be reported in a manner and form as designated by the CFTC or the Exchange.

5415.00. OFFSETS AND TRANSFER TRADES.

Except by same day trade activity, existing futures positions in a delivery month may not be offset during the period beginning two (2) business days prior to the delivery month and during the delivery month. Clearing Members will be responsible for compliance with this requirement by their omnibus accounts. This prohibition also applies to transfer trades where no change in ownership is involved when the date of execution or exercise of the position being transferred is not the same as the transfer date. Such positions are required to be offset by trading. If such positions are carried on the books of different Clearing Members, the receiving Clearing Member is responsible for compliance with this Regulation.

5416.00. CONTRACT MODIFICATIONS.

Specifications of a contract shall be fixed for the duration of the contract month upon the first trade in that contract month. However, a change in any Federal law, regulation, ruling, directive or order that conflicts with these Regulations or specifications will become effective upon notice by the Exchange. Additionally, the Board of Directors and/or Exchange are granted the authority to change contract specifications as it deems appropriate or necessary, or to conform to any other applicable law, rule, regulation that conflicts with these Regulations or specifications, for any unopened contract month, as well as change contract specifications for any contract month with open interest upon approval by CFTC.

Further, the Board of Directors and/or Exchange, to maintain the purpose and viability of the AJC futures contract are granted the authority to change the AJC Regulations not directly affecting contract specifications at any time and implement such change as may be determined.

5417.00. SETTLEMENT.

Settlement of the AJC futures contract shall be by closing out positions by the last trading day, by exchange for swap (either EFP or EFR) by the last notice day, or by physical delivery of warehouse receipt on the last delivery day.

5418.00. EMERGENCIES.

In the event of an emergency, as determined by the Exchange, the Board of Directors shall have the authority and power to follow the procedures described in **Rule 210.02**. The Board of Directors may delegate such powers as it deems necessary, by rule or otherwise, to the Executive Committee, Exchange Officer(s), or other employees of MGEX so that timely action may be taken.

An emergency shall include, but is not limited to, act of God, act of government, strike, quake, flood, interference, interruptions or breakage of communication, accident, or any event or occurrence that is causing or may cause disruption in the marketplace.

Additionally, in the event of an emergency, the Board of Directors or its delegate shall have such authority and power to utilize such sources, means or methods that it determines to be in the best interest of the Exchange and the market.

The decision of the Board of Directors, Executive Committee, Exchange Officer(s), or other employees of MGEX as delegated, shall be final and binding upon all parties. The Exchange shall not be liable to any party as a result of actions and decisions taken in good faith.

CHAPTER 55
APPLE JUICE CONCENTRATE OPTIONS REGULATIONS

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CHAPTER 55
APPLE JUICE CONCENTRATE OPTIONS REGULATIONS

5500.00. SCOPE OF CHAPTER.

This Chapter of Regulations has been duly adopted by the Board of Directors and is limited in its application to the trading of put and call options on Apple Juice Concentrate ("AJC") futures contracts. Electronic trading, clearing, settlement and any other matters not specifically covered herein shall be governed by the Rules, Regulations and Resolutions of the Exchange, or otherwise delegated to the Exchange to establish policies and procedures that implement the Rules and Regulations. Furthermore, trading in options on AJC futures are subject to the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission ("CFTC") regulations promulgated thereunder.

5501.00. APPLE JUICE CONCENTRATE PUT OPTIONS.

The buyer of one (1) AJC futures put option may exercise such option at any time prior to expiration to assume a short position in one (1) AJC futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one (1) AJC futures put option incurs the obligation of assuming a long position in one (1) AJC futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by the put option buyer.

5502.00. APPLE JUICE CONCENTRATE CALL OPTIONS.

The buyer of one (1) AJC futures call option may exercise such option at any time prior to expiration to assume a long position in one (1) AJC futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one (1) AJC futures call option incurs the obligation of assuming a short position in one (1) AJC futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by the call option buyer.

5503.00. CONTRACT TRADING UNIT.

The unit of trading shall be a put or a call option exercisable for one (1) AJC futures contract of a specified month.

5504.00. MINIMUM PRICE FLUCTUATION.

The premium for AJC options shall be one-quarter cent (\$0.0025) or four dollars fifty cents (\$4.50) per option contract.

However, in the case of a cabinet trade to close a position, the premium may be one dollar (\$1.00) per option contract.

5505.00. TRADING HOURS.

The hours of trading AJC options shall be from seven o'clock (7:00) a.m. to one-ten o'clock (1:10) p.m. All times shall be Central Time.

5505.01. OFFICIAL CLOSING PERIOD.

The official closing period shall be from 1:09:00 p.m. to 1:09:59 p.m. Central Time.

5506.00. CONTRACT MONTHS.

Trading may be conducted in AJC options in the same months that are listed for trading in the AJC futures contract. See [Regulation 5405.00](#). Additionally, trading may be conducted in AJC options in months that are not listing for trading in the AJC futures contract. However, no more than two (2) options months outside the delivery cycle shall be available to trade at one time and shall be limited to those months immediately preceding the current delivery month and the next delivery month. Trading in an options month outside the delivery cycle may begin the first business day of the month immediately preceding its month of expiration. The underlying AJC futures contract month for such options month shall be the next month in the delivery cycle. However, the Board of Directors or Exchange may, at its discretion, restrict trading in any month should market conditions so warrant. There shall be no trading in AJC options for months in which AJC futures have not traded.

5507.00. DAILY PRICE LIMITS.

Trading is prohibited in an AJC option at a premium that is greater than the trading limit for the AJC futures contract above and below the previous day's settlement premium for that option. See [Regulation 5406.00](#). On the first day of trading, limits shall be set from the premium of the first trade.

5508.00. LAST TRADING DAY.

The last trading day will be the Friday which precedes by at least two (2) business days, the last business day of the month preceding the option month. If such Friday is not a business day, the last trading day shall be the business day prior to such Friday.

5509.00. STRIKING PRICES.

The Exchange shall set the procedure for introduction of striking prices and may modify the procedure as it deems appropriate in order to respond to market conditions.

Trading may be conducted for options with striking price increments of five cents (\$0.05) and ten cents (\$0.10) per gallon. At the commencement of trading in an option class, the following striking prices shall be listed: the striking price closest to the initial futures trade on the underlying Apple Juice Concentrate futures contract and the next five (5) consecutive higher and five (5) consecutive lower in five cent (\$0.05) increments, and the next ten (10) consecutive higher and ten (10) consecutive lower in ten cent (\$0.10) increments. If the initial futures trade or previous day's settlement price on the underlying Apple Juice Concentrate futures contract is midway between two (2) striking prices, the closest price shall be the larger of the two (2). New striking prices will not be available until the next trading session.

Sufficient new striking prices shall be added prior to the next trading session to insure there are five (5) consecutive higher and five (5) consecutive lower in five cent (\$0.05) increments and an additional ten (10) consecutive higher and ten (10) consecutive lower in ten cent (\$0.10) increments above and below the previous day's settlement price.

5510.00. PAYMENT OF OPTION PREMIUM.

The option premium must be paid in full by each Clearing Member to the Clearing House and by each option customer to their respective commission merchants at the time that the option is purchased.

5511.00. MARGIN REQUIREMENTS.

Margin requirements shall be established in accordance with [Rule 760.00](#).

5512.00. EXPIRATION OF OPTIONS.

The contractual rights and obligations arising from the option contract expire at four o'clock (4:00) p.m. Central Time on the last day of trading.

5513.00. OPTION EXERCISES.

The buyer of an AJC option may exercise the option on any business day by giving proper and timely notice of exercise to the Clearing House. See [Resolution 2101.00.C](#).

Additionally, notice by an option holder to exercise an option may be accepted by the Clearing House (in its sole discretion) after the deadline but prior to final expiration processing:

- A. To correct errors or mistakes made in good faith;
- B. To take appropriate action as the result of unreconciled Exchange option transactions; and
- C. In exceptional cases involving a customer's inability to communicate to the Clearing Member exercise instructions or the Clearing Member's inability to receive such instructions prior to the reporting deadline on the last day of trading.

5514.00. AUTOMATIC EXERCISE.

Notwithstanding the provisions of [Regulation 5513.00](#)., based upon the settlement price for AJC futures on the last day of trading for AJC options, the Clearing House shall automatically exercise all in-the-money options unless notice to cancel automatic exercise is timely given to the Clearing House. See [Resolution 2101.00.C](#).

Additionally, notice to cancel automatic exercise may be accepted by the Clearing House (in its sole discretion) after the deadline but prior to final expiration processing:

- A. To correct errors or mistakes made in good faith;
- B. To take appropriate action as the result of unreconciled Exchange option transactions; and
- C. In exceptional cases involving a customer's inability to communicate to the Clearing Member exercise instructions or the Clearing Member's inability to receive such instructions prior to the reporting deadline on the last day of trading.

5515.00. ASSIGNMENT.

The Clearing House shall assign the exercise of an option through a process of random selection or other approved method to a Clearing Member carrying a short position in the same option series. The buyer's Clearing Member shall be assigned a long position in the underlying futures contract if a call is exercised or a short position if a put is exercised. The Clearing Member shall promptly notify the buyer and seller of any assignments.

All positions assigned in the underlying futures contract shall be at a price equal to the exercise price of the option.

5516.00. POSITION LIMITS.

- A. **Limits.** Position limits shall be determined by the Exchange. However, the position limits shall not apply to positions which are *bona fide* hedging transactions or positions as defined by MGEX. Additionally, any person with *bona fide* hedging positions must report such activity pursuant to MGEX or CFTC Regulations or Procedures and in such manner and format, and at such times, as may be required.

No person shall own or control a combination of options and underlying futures contracts that exceeds one-thousand (1,000) futures-equivalent contracts net long or short in all contract months combined, or one-thousand (1,000) futures-equivalent contracts net long or short in any single contract month.

- B. **Compliance.** The Exchange may direct any person owning, controlling or carrying a position for another person in excess of the limits set forth in this Regulation to liquidate or otherwise reduce the position to achieve conformity with this Regulation. Further, no person may exceed the limits at any time during the trade day. Other than *bona fide* hedging positions, positions in excess of the limits shall be presumed to be a rule violation. However, for any futures position that exceeds position limits for passive reasons such as a market move or exercise assignment, the person shall be allowed one (1) business day to liquidate the excess position without being considered in violation of the limits.
- C. **Enforcement.** The person owning, controlling or carrying a position, as well as the account holder, FCM, or Clearing Member as the case may be, shall maintain adequate books and records, available to the Exchange, upon request, which disclose the identity of and positions held by any person that owns or controls such position. The person owning, controlling or carrying a position, as well as the account holder, FCM and Clearing Member may be held accountable for any violation of the limits. The Department of Audits and Investigations may take enforcement action against any or all of the parties, whether or not each had actual knowledge of the position or violation.

5517.00. EXEMPTIONS FROM POSITION LIMITS.

To be eligible for an exemption under this Regulation, an applicant must submit a written request to the Department of Audits and Investigations. Such request shall include the following:

- A. a description of the size and nature of the proposed transactions;
- B. information which will demonstrate that the proposed transactions are *bona fide* hedging transactions;
- C. a statement indicating whether the person on whose behalf the request is made (i) maintains positions in the futures contract for which the exemption is sought with any other account holder or owner, and/or (ii) has made a previous or contemporaneous request pursuant to the

Regulation through another applicant, and if so, the relationship of the information set forth in such requests;

- D. a statement that the intended transactions will be *bona fide* hedges;
- E. a statement that the applicant will immediately supply the Exchange with any material changes to the information submitted pursuant hereto;
- F. such further information as the Exchange may request, including the daily, weekly or periodic filing of any documents or reports.

Within five (5) business days of the submission of the information set forth above, the Department of Audits and Investigations shall notify the applicant whether the exemption has been granted and the limitations placed thereon. An exemption will remain in full force and effect until (i) the applicant or person on whose behalf the request is made requests a withdrawal; or (ii) the Exchange revokes, modifies or places further limitations thereon. At any time, MGEX may limit *bona fide* hedging positions, and deny or limit any request for exemption from position limits which MGEX determines in its sole discretion are not in accord with sound commercial practices or exceed the established or permitted amount which may be liquidated in an orderly fashion.

When applied to the AJC contract, MGEX will use as a guide, but not be limited by, the CFTC definition of a *bona fide* hedging position, as described in Commission Part 151, specifically 151.5, or elsewhere, as applicable.

5518.00. AGGREGATION OF POSITIONS.

In determining whether any person has exceeded the position limits, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly holds positions or controls trading shall be included with the positions held by such person. Such limits upon positions shall apply to positions held by two (2) or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person. MGEX will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC Part 151, specifically 151.7, or elsewhere, as applicable.

5519.00. REPORTABLE POSITIONS.

A position of twenty-five (25) or more put or call options on this Exchange, long or short, in any one (1) month shall be a reportable position level. All such positions shall be reported in a manner and form as designated by the CFTC or the Exchange.

CHAPTER 56
APPLE JUICE CONCENTRATE DELIVERY WAREHOUSES REGULATIONS

- 5600.00. Scope Of Chapter
- 5601.00. Delivery Warehouses: Conditions For Becoming Regular
- 5602.00. Cancellation, Expiration, Revocation Or Withdrawal Of Regularity
- 5603.00. Records, Reports, Visitation Of Premises Required By Commodity Exchange Act
- 5604.00. Information And Access To Records And Reports By MGEX
- 5605.00. Miscellaneous

CHAPTER 56
APPLE JUICE CONCENTRATE DELIVERY WAREHOUSES REGULATIONS

5600.00. SCOPE OF CHAPTER.

This Chapter of Regulations has been duly adopted by the Board of Directors and is limited in its application to delivery warehouses for Apple Juice Concentrate (AJC). Trading, clearing, settlement, delivery and any other matters not specifically covered herein shall be governed by the MGEX Rules and Regulations, or otherwise delegated to the Exchange to establish policies and procedures that implement the MGEX Rules and Regulations.

5601.00. DELIVERY WAREHOUSES: CONDITIONS FOR BECOMING REGULAR.

When and if the terms and conditions set forth herein have been complied with, and not otherwise, the Exchange may declare a warehouse "Regular" for delivery.

Persons operating a warehouse who desire to have such warehouse become or remain Regular for delivery of AJC under the Regulations of the Exchange shall file an application or renewal form as prescribed by the Exchange. (See **Form 56-01.00.**) Renewal for Regularity must be filed prior to March 1 for a one (1) year term beginning the following May 1. Application for Regularity may be made at any time during a current term for the balance of that term. However, if an applicant is approved during the months of February, March or April, their initial Regularity term will include the following one (1) year term. Initial Regularity during the term shall become effective on the last business day in the month (or earlier if deemed necessary) in which the Exchange approves such application.

The Exchange may approve renewal of Regularity and may revoke said Regularity for cause at any time. Denial or revocation of Regularity by the Exchange may be appealed to the Board of Directors. The decision of the Board of Directors shall be final.

Application for Regularity may be made by persons operating eligible warehouses receiving AJC product and located within 100 miles of major shipping ports along the mainland coasts of the United States. The Board of Directors and Exchange shall have sole discretion to determine locations suitable for delivery on the AJC futures contract. Such locations may be amended as determined necessary by the Board and Exchange for efficient AJC delivery. (Subject to any CFTC approval or notification.)

Each applicant and Regular warehouse must have, agree to and remain in compliance with the following requirements:

- A. A facility for the cold storage, handling and delivery of AJC in drums or bins. Cold storage means the ability to store AJC at or below 0° degrees Fahrenheit. Delivery means having the equipment and ability to load and unload semi-tractor trailers;
- B. An electronic database recordkeeping system in which the arrival to and departure from the facility of AJC inventory is entered. Furthermore, the system must be able to clearly identify by multiple identifiers including but not limited to lots, sublots, and each drum or bin and the location thereof within the facility. Such system must be able to identify product should it be subject to recall;

- C. Collect, maintain and forward such information and documents as may be requested by the Exchange including weekly or more frequent AJC inventory and stock reports. (See [Form 56-01.00.C.](#)) Further, allow MGEX such access to records or databases as necessary to verify information and stocks;
- D. Establish FedEx, electronic mail, or such other accounts as needed with MGEX, product owners, the testing agency and clearing members to effectively and efficiently communicate intentions, send/receive documents, confirm instructions, make payments, etc;
- E. A facility and equipment sufficient for samples to be able to be taken, and assistance to inspectors so they may be able to take samples. This includes retrieving and moving drums and bins as requested. Warehouses cannot interfere with the sampling process. A warehouse must contact the USDA sampling/testing agent within one (1) business day upon request of the owner of the AJC product;
- F. Obtain any required and maintain a valid or required license permitting the warehouseman to own or operate a cold storage facility, and/or store and handle processed food products such as AJC. The license(s) may be issued by the municipality, a state or the federal government;
- G. Maintain compliance with applicable product handling and health code requirements (such as HACCP requirements) established by any regulatory agency or entity, such as the FDA and USDA, with jurisdiction or oversight authority over the warehouse or products stored by the warehouse. Further, cooperate with or provide such agency or entity access to records, products or the premises, if so required by law or regulation. MGEX Rules and Regulations shall not shield a warehouse from compliance with any laws or regulations. A facility must cooperate with any product recalls or any other food safety inquiries regarding AJC. MGEX shall not be liable to any party for the quality of product or product recalls;
- H. Provided AJC product has been stored, tested, and identified as established in the MGEX Rules and Regulations, complete and issue negotiable warehouse receipts within one (1) business day (in a form acceptable to MGEX) upon request of the owner of the AJC product. See Form 54-04.00.E. for an example of an acceptable negotiable warehouse receipt. A Regular warehouse shall honor all receipts it issues. Further, a warehouse shall be responsible for the content, accuracy and completeness of any receipt it issued for delivery on an AJC futures contract. Except for choice of law provisions, the laws of the state of Minnesota shall govern any negotiable warehouse receipt issued on AJC product and used to deliver on the AJC futures contract. MGEX disclaims any liability for the use of negotiable warehouse receipts used for delivery against the AJC futures contract;
- I. Provide a tariff or fee schedule listing the rates for storage and handling of AJC drums and/or bins and agree to make such rates public. A Regular warehouse may provide the owner of products stored a lower storage rate based on volume of business. However, a warehouse cannot charge any subsequent owner of a negotiable warehouse receipt a higher storage rate than the original owner. Changes to tariffs must be provided thirty (30) days prior to effective date. In all instances, fees and tariffs charged by the warehouse must be satisfactory to the Exchange. MGEX may establish a maximum storage rate on AJC warehouse receipts used for delivery on an AJC futures contract. Further, MGEX may establish maximum handling charges or fees. A warehouse may not charge more than one party for the same service (i.e. no double charging);

- J. Abide by and agree to be subject to MGEX Rules and Regulations, including but not limited to those procedures described in MGEX documents made available by the Exchange. A Regular warehouse acknowledges the priority of MGEX Rules and Regulations should there be a conflict or dispute as to the application of appropriate authority or the interpretation of MGEX Rules and Regulations. **All Regular warehouses agree to submit to the arbitration jurisdiction provided in the MGEX Rules and Regulations;**
- K. Immediately inform the Exchange of any adverse or potential adverse changes in status or financial conditions;
- L. Be in good financial standing, and meet and maintain the following minimum financial requirements as evidenced by submission of the required financial statements:
1. **Working Capital** (excess of current assets over current liabilities) of at least \$500,000. A bond, T-bill, cash or letter of credit paid to or in favor of MGEX in the amount of \$500,000 may be acceptable at the discretion of the Exchange if this requirement is not met;
 2. **Net Worth** of at least \$500,000. A bond, T-bill, cash or letter of credit paid to or in favor of MGEX in the amount of \$500,000 may be acceptable at the discretion of the Exchange if this requirement is not met;
 3. MGEX has sole discretion to limit the number of negotiable AJC warehouse receipts eligible for delivery on the AJC futures contract that may be issued by a Regular Warehouse based on financial condition. Further, MGEX has sole discretion to request additional financial credit from a warehouse or revise financial requirements as it deems necessary;
- M. Submit the following financial information to the Exchange Corporate Secretary:
1. **Annual Audited Financial Statement** prepared by an independent public accountant in accordance with generally accepted accounting principles, and submitted no later than ninety (90) days after the fiscal year end;
 2. **Unaudited Financial Statement** reviewed by an independent licensed or public accountant may be submitted only if an audited financial statement is not available. If reviewed financial statements are not available, other financial statements may be submitted. However, if audited financial statements are not submitted, Regularity status may only be granted under conditions determined by the Exchange in its sole discretion. In such instances, the minimum financial standards may be significantly higher than stated in this chapter. Further, the Exchange may require additional or greater financial surety, including bonds, T-bills, cash and letters of credit. If audited financial statements are not submitted, a bond, T-bill, cash or letter of credit paid to or in favor of MGEX in

the amount of \$1 million will be required. However, this amount may be modified at the discretion of the Exchange;

3. **Interim Unaudited Financial Statement** (balance sheet and income statement) submitted no later than forty-five (45) days after the mid-year point of the warehouseman's fiscal year. An interim financial statement is required of all warehouses submitting an annual financial statement under 1 or 2 above;
4. If **no financial statements** are submitted, a bond, T-bill, cash or letter of credit paid to or in favor of MGEX in the amount of \$2 million will be required. However, this amount may be modified at the discretion of the Exchange;

Note: MGEX has sole discretion to grant an extension of time to file a financial statement upon the written request of the warehouse and provided such request is received by MGEX prior to the financial statement due date.

N. Obtain, maintain and submit proof of the following insurance:

1. **Legal Liability** coverage for the loss of goods. The general terms of the legal liability insurance shall be stated on the negotiable warehouse receipt. A new certificate of insurance must be provided to MGEX prior to expiration of the coverage policy;
2. **Building or Property Insurance** in an appropriate amount satisfactory to MGEX;
3. **Product Insurance** that, at a minimum, is common in the industry and may be required by law or license. If the warehouse does not maintain full coverage or is not required to provide full coverage, the warehouse must disclose to the owner the amount of coverage so provided. Coverage may be disclosed in the fee schedule, tariff or negotiable warehouse receipt. If the stored AJC is not insured by the warehouse, it must be clearly stated on the warehouse receipt. The owner may obtain additional coverage at his own expense. However, the warehouse shall be responsible for product losses for which it is legally liable;

Note: MGEX has sole discretion to limit the number of negotiable AJC warehouse receipts that may be issued based on insurance coverage. Further, MGEX has sole discretion to request additional insurance from a warehouse or revise minimum insurance requirements as it deems necessary.

O. Obtain, maintain and submit proof of a **performance bond** in the minimum amount of \$250,000 in favor of MGEX or purchase and hold a membership of MGEX. A T-bill, cash or an unconditional and irrevocable letter of credit paid to or in favor of the Exchange may be substituted for the \$250,000. The amount of bonds, T-bills, cash or a single letter of credit may not be used to meet more than one financial or regulatory

requirement. Further, MGEX has sole discretion to request additional bond or revise the minimum bonding requirements as it deems necessary. All forms of bonds and letters of credit must be satisfactory to MGEX and issued by acceptable sureties. MGEX may waive this requirement in its sole discretion should MGEX determine the warehouse has sufficient insurance and financial standing;

- P. Any MGEX memberships or amount paid to or in favor of MGEX is available to the Exchange to use in its discretion upon a failure of the pledging warehouse to meet its obligations required by the MGEX Rules and Regulations;
- Q. Exercise such care in regards to stored AJC product as a reasonably prudent man would exercise under like circumstances as well as follow any prescribed MGEX Rules and Regulations related to AJC product. Failure to exercise such duty of care shall subject the warehouse to liability for loss, damage or destruction of AJC product; and
- R. Limit the number of negotiable AJC warehouse receipts outstanding at any one time if requested or determined by the Exchange. The number of negotiable 1,800 gallon warehouse receipts that a warehouse can issue and have outstanding may be limited by the warehouse's financial condition, type of financial statement, insurance coverage, performance bond, or such other factors the Exchange shall determine in its sole discretion presents a potential risk that should be considered in its analysis and decision.

5602.00. CANCELLATION, EXPIRATION, REVOCATION OR WITHDRAWAL OF REGULARITY.

A "Regular" warehouse shall not withdraw as Regular except after a ninety (90) day notice to the Exchange, or having obtained written consent of the Exchange.

In the event of cancellation, expiration, revocation, or withdrawal of Regularity, owners of outstanding negotiable warehouse receipts shall be given sixty (60) days to take load-out of AJC from the facility. After such time, the outstanding negotiable warehouse receipts will not be eligible for delivery against an AJC futures contract. Such time may be modified by the Exchange.

The Corporate Secretary will post notice of any cancellation, expiration, revocations or withdrawal of Regularity.

5603.00. RECORDS, REPORTS, VISITATION OF PREMISES REQUIRED BY COMMODITY EXCHANGE ACT.

Warehousemen operating Regular warehouses, in compliance with the provisions of the MGEX Rules and Regulations and the Commodity Exchange Act, as amended and the Regulations promulgated thereunder shall:

- A. Keep records showing the stocks of AJC in store in such warehouses regardless of whether or not a warehouse receipt has been issued for such AJC product;
- B. Upon call from the Commodity Futures Trading Commission, report the stocks of AJC and furnish information concerning AJC stocks for future delivery about to be transferred or in process of being transferred, or otherwise moved into or out of such warehouses, as well as any other information concerning AJC stored in such warehouses and that are or may be available for delivery on AJC futures contracts;

- C. Permit visitation of the premises and inspection of the books and records of such warehouses by duly authorized representatives of the United States Department of Agriculture, the Department of Justice or the Commodity Futures Trading Commission, and to keep all books, records, papers and memoranda relating to the storage and warehousing of commodities in such warehouses for a period for five (5) years from the date thereof.

5604.00. INFORMATION AND ACCESS TO RECORDS AND REPORTS BY MGEX.

Operators of MGEX-approved Regular warehouses shall disclose and timely file with the Exchange such information as requested, including but not limited to: quantity and condition of stocks in store; AJC in transit, purchased, sold, owned, held for others, consigned, assigned, transferred, delivered, or loaded out; and information on warehouse receipts issued and outstanding, cancelled without delivery and cancelled with delivery.

The information to be provided shall be in the manner, method and format determined by the Exchange and at such times determined by the Exchange. Such information may be requested on a daily, weekly or periodic basis.

Operators shall accord every facility to any duly authorized committee or person for:

- A. the examination of its books and records.
- B. the purpose of ascertaining the stocks of commodities which may be on hand at any time.

Such examination and verification may be made any time by the Exchange or its approved inspection agents or, any other committee authorized by the Exchange, which shall have the authority to employ appropriate personnel to determine the quantity and quality of AJC product in the warehouses and to compare the books and records of the said facilities with the records of any State or Federal authority.

Operators shall keep all books, records, papers and memoranda relating to the storage and warehousing of commodities in said facilities for a period of five (5) years.

5605.00. MISCELLANEOUS.

The MGEX Rulebook and procedures do not supersede state or Federal law. MGEX shall not be liable for the costs incurred by warehouses to become and remain Regular. Further, MGEX shall not be liable to warehouses or any party for actions taken by MGEX to enforce this chapter or the MGEX Rulebook, or for actions taken by MGEX pursuant to authority under this chapter or this Rulebook. MGEX may take such actions it determines in its sole discretion are necessary to address delivery or stock matters including potential manipulation.

A Regular warehouse, or the operator of a Regular warehouse, may be held liable to a product owner, warehouse receipt holder, clearing member, or other affected party for failure to follow MGEX Rules and Regulations. This potential liability includes, but is not limited to, costs and delays from incomplete or inaccurate warehouse receipts, failure to timely request for sample testing, failure to promptly issue a negotiable warehouse receipt, failure to promptly forward documents to the appropriate party, improper recordkeeping, improper charges or fees, or lost or missing documents.

License Number

FORM 54-04.00.C.

Receipt Number

WAREHOUSE COMPANY LOGO

NEGOTIABLE WAREHOUSE RECEIPT

Amount (in gallons)								RECEIVED BY XYZ Cold Storage ("COMPANY") GOODS described below are stored at COMPANY's warehouse located at			
RECEIVED FROM: _____ <small>Original HOLDER's Name & Address</small>											
GOODS are subject to the terms and conditions stated on the reverse hereof, which constitutes a contract that the HOLDER agrees to by accepting this Negotiable Warehouse Receipt.											
Date Issued		Warehouse Receipt Lot Number		Country of Origin	Gross Weight (lbs)	Tare Weight (lbs)	Type and Number of Units drums/bins/bulk	Stored at Temperature	Storage Charge <input type="checkbox"/> Split Month <input type="checkbox"/> Anniversary	Rate	Storage Date
									Handling Charge In & Out Inclusive	Other charges may apply	
Test Lot Number		The following GOODS are stored pursuant to this Negotiable Warehouse Receipt. (Information on GOODS):								Negotiable Warehouse Receipt Issued by:	
COA Lot Number										Signature	
Storage Paid-Through Date											
Chain of Title (Endorsement)		Subject to the terms and conditions on the reverse hereof, COMPANY shall deliver the GOODS to the person in possession of this Negotiable Warehouse Receipt if the GOODS are deliverable to BEARER or are deliverable to the order of the person in possession.									
GOODS stored pursuant to this Negotiable Warehouse Receipt were received in apparent good order unless noted otherwise, however, the contents, condition, and quality are unknown.											

CONTRACT TERMS AND CONDITIONS

SECTION 1 - DEFINITIONS

As used in this Negotiable Warehouse Receipt ("Warehouse Receipt") the following terms have the following meanings:

- (a) **HOLDER** The person in possession of this Warehouse Receipt that is endorsed either to BEARER or to the order of the person in possession.
- (b) **COMPANY** (INSERT YOUR COMPANY'S LEGAL NAME) **WAREHOUSE NAME** As used in Sections 9 and 10 hereof COMPANY includes officers, directors, employees and agents of COMPANY while acting.
- (c) **Total LOT** Unit or units of GOODS which are separately identified by COMPANY for USDA labeling purposes.
- (d) **Warehouse Receipt Lot** Unit or units of GOODS which are separately identified by COMPANY for purpose of identifying a single deliverable unit of GOODS.
- (e) **ADVANCE** All sums due or claimed to be due to COMPANY from HOLDER or others relating to GOODS regardless of the source, whether liquidated or not, including but not limited to loans, disbursements, charges made for or on account of HOLDER or GOODS, necessary for preservation of GOODS or reasonably incurred in their sale pursuant to law.

(f) **GOODS** The personal property which is described on the front of this Warehouse Receipt, which COMPANY has agreed to receive and store pursuant to this Warehouse Receipt.

(g) **BEARER** The person in possession of this Warehouse Receipt that is endorsed to bearer or endorsed in blank.

SECTION 2 - TENDER FOR STORAGE

- (a) **HOLDER** or **HOLDER** agrees shall deliver the GOODS for storage at the warehouse property marked and packed for handling.
- (b) **HOLDER** shall furnish, at or prior to such delivery, a manifest showing marks, brands or size to be kept and accounted for separately and the class of storage desired.

- (c) **COMPANY'S** receipt and delivery of a **LOT** (or partial **LOT**) shall be made without subsequent sorting except by special arrangement and subject to a charge.
- (d) **COMPANY** shall store and deliver **GOODS** only in the packages in which they are originally received unless otherwise agreed to in writing.
- (e) **COMPANY** shall not be responsible for reweighing **GOODS** by production code date unless specifically agreed to in writing.
- (f) **HOLDER** acknowledges that **COMPANY** is only obligated to account for and deliver the **GOODS** identified on the front of this Warehouse Receipt.

SECTION 3 - TERMINATION OF STORAGE

- (a) **COMPANY** may upon written notice, as required by law, require the removal of **GOODS**, or any portion thereof, from the warehouse upon the payment of all charges attributable to said **GOODS** within a stated period, not less than 30 days after such notification. If said **GOODS** are not so removed, **COMPANY** may sell them as provided by law and shall be entitled to exercise any other rights it has under the law with respect to said **GOODS**.

(b) If, in the opinion of **COMPANY**, **GOODS** may be about to deteriorate or decline in value to less than the amount of **COMPANY'S** lien thereon, or may constitute a hazard to other property or to the warehouse or persons, **COMPANY** may remove or dispose of **GOODS** as permitted by law. **HOLDER** shall pay all charges related to said removal.

SECTION 4 - STORAGE LOCATION

- (a) **COMPANY** shall store **GOODS** at its discretion at any one or more buildings at **COMPANY'S** warehouse complex identified on the front side of this Warehouse Receipt. The identification of any specific location within **COMPANY'S** warehouse complex does not guarantee that **GOODS** shall be stored thereon.
- (b) Subject to any contrary written instructions given by **HOLDER**, **COMPANY** may, at any time, at its expense, and without notice to **HOLDER**, remove any **GOODS** from any room or area of the warehouse complex to any other room or area thereof.
- (c) Upon ten (10) days written notice to **HOLDER**, **COMPANY** may, at **COMPANY'S** own expense, remove **GOODS** to any other warehouse complex operated by **COMPANY**.

SECTION 5 - STORAGE CHARGES

(a) Storage charges commence upon the date that **COMPANY** accepts care, custody and control of **GOODS**, regardless of unloading date or date Warehouse Receipt is issued. Charges shall be computed separately for each **LOT** or one of the following optional bases:

- (1) If storage rates are quoted on a "SPLIT MONTH" basis the storage month shall be a calendar month. A full month's storage charge shall apply to all **GOODS** received between the 1st and 15th inclusive of a calendar month. One half month's storage charge shall apply on all **GOODS** received between the 15th and last day inclusive of a calendar month. A full month's storage charge shall apply on the 1st day of the next calendar month and each month thereafter on all **GOODS** then remaining in storage.
- (2) If storage rates are quoted on an "ANNIVERSARY" basis the storage month shall extend from date of receipt in one calendar month to, but not including, the same date of the next month. If there is no corresponding date in the next month, the storage month shall end on the last day of said next month. A full month's storage charge shall apply on receipt of **GOODS** and an additional monthly storage charge shall apply on each monthly anniversary date on all **GOODS** then remaining in storage.

- (b) Charges shall be applicable on net ton in the rate quotation or other document issued by **COMPANY** to **HOLDER** and/or in **COMPANY'S** tariff or rate schedule.
- (c) Unless **COMPANY** specifies otherwise, all storage charges are fully earned and due and payable on the 1st day of storage for the initial month and thereafter on the 1st day of each storage month.

(d) Rates quoted by weight shall, unless otherwise specified, be computed on gross weight and 2,000 pounds shall constitute a ton.

SECTION 6 - HANDLING CHARGES

- (a) Unless otherwise specified or elected by **COMPANY**, handling charges cover only the ordinary labor and duties incidental to receiving and delivering unitized **GOODS** on pallets at the warehouse dock during normal warehouse hours but do not include loading and unloading.
- (b) Unless otherwise specified, **COMPANY** may impose a charge in addition to the regular handling charges for any work performed by **COMPANY** other than that specified in Section 6(a) at rates which are in effect from time to time a copy of which rates are available upon request.
- (c) **COMPANY** may impose an additional charge for each order or each item of an order, when **GOODS** are ordered out in quantities less than they were received.
- (d) **COMPANY'S** delivery of less than all units of any **LOT** or of less than all the fungible **GOODS** stored for **HOLDER** shall be made without subsequent sorting except by special arrangement and subject to an additional charge.

SECTION 7 - TRANSFER OF TITLE; DELIVERY

(a) **HOLDER** may transfer all rights and title in and to **GOODS** by proper endorsement and delivery of this Warehouse Receipt. Both the transferring **HOLDER** and the receiving **HOLDER** must promptly provide notice of transfer of title of this Warehouse Receipt to **COMPANY**. Otherwise, **COMPANY** shall continue to treat the transferring **HOLDER** as the **HOLDER** and invoice the transferring **HOLDER** for storage and other charges and such **HOLDER** shall continue to be liable to **COMPANY** for all storage and other charges. **COMPANY** may impose charges for each such transfer and for any rehandling of **GOODS** that **COMPANY** deems to be required.

- (b) **COMPANY** shall have a reasonable time to make delivery after **HOLDER'S** request for delivery and presentation of this properly endorsed Warehouse Receipt, and shall have a minimum of 10 business days after receipt of a delivery order in which to locate any misplaced **GOODS**.
- (c) If **COMPANY** has exercised reasonable care and is unable, due to causes beyond its control, to effect delivery before expiration of the current storage period, **GOODS** shall be subject to storage charges for each succeeding storage period.
- (d) All instructions and requests for delivery of **GOODS** or transfer of title are received subject to satisfaction of all charges, liens and security interests of **COMPANY** with respect to **GOODS** whether for accrued charges or **ADVANCES** or otherwise.
- (e) **COMPANY** may require, as a condition precedent to delivery, a statement from **HOLDER**, holding **COMPANY** harmless from claims of others asserting a superior right to **HOLDER** to possession of **GOODS**. Nothing herein shall preclude **COMPANY** from asserting any other remedy available to it under the law to resolve conflicting claims to possession of **GOODS**. All costs, including attorney's fees, incurred by **COMPANY** relating in any way to **COMPANY'S** activities referred to in this Section 7(e) shall be charged to **HOLDER** and shall, for purposes of Section 12 below, be considered "charges present or future with respect to such **GOODS**" and shall attach as a lien on **GOODS**.

SECTION 8 - OTHER SERVICES AND CHARGES

(a) **COMPANY** may charge **HOLDER** for other services rendered in the interest of **HOLDER** or **GOODS** at **COMPANY'S** then current schedule of rates. Such services may include, but are not limited to, the following: furnishing of special

warehouse space or material, sampling, weighing, repacking, inspecting, compiling stock statements, and reporting or recording marked weights or numbers.

- (b) All **ADVANCES** are due and payable immediately. All charges are due and payable upon the date of invoice. All charges and **ADVANCES** not paid within 30 days from the due date are subject to an interest charge from the date said charge or **ADVANCE** became due until paid, at the lesser of 1.5% per month or the maximum amount allowed by law.
- (c) **HOLDER** may, subject to insurance regulations and reasonable limitations, inspect **GOODS** when accompanied by an employee of **COMPANY** whose time is chargeable to **HOLDER**.
- (d) In the event of damage or threatened damage to **GOODS**, **HOLDER** shall pay all reasonable and necessary costs of protecting and preserving **GOODS**. When such costs are attributable to **GOODS** and other stored property, said costs shall be apportioned among **HOLDER** and all other affected customers on a pro rata basis to be determined by

COMPANY:

- (e) **COMPANY** shall supply damage bracing and fastenings it deems appropriate on outbound shipments and the cost thereof is chargeable to **HOLDER**.
- (f) Any additional costs incurred by **COMPANY** in unloading cars or trucks containing damaged **GOODS** are chargeable to **HOLDER**.
- (g) **COMPANY** shall not be responsible for detention or demurrage charges or delays in loading or unloading unless such detention or demurrage charge or delay was caused solely by **COMPANY'S** negligence.
- (h) A charge in addition to regular storage and handling rates may be made for bonded storage.
- (i) **COMPANY** may assess an additional charge when **GOODS**, designated for freezer storage, are received at temperatures above +5 degrees Fahrenheit; however, **COMPANY** shall not be responsible for blast freezing **GOODS** unless **HOLDER** specifically requests such services in writing.
- (j) All storage, handling and other services may be subject to minimum charges.
- (k) **HOLDER** agrees to pay **COMPANY'S** all costs and **ADVANCES** including reasonable attorney's fees, incurred by **COMPANY** in connection with the storage, handling and/or disposition of **GOODS**, including without limitation, such costs, **ADVANCES** and/or fees, relating to lawsuits (including bankruptcy proceedings) involving in any way said **GOODS** and/or **HOLDER'S** performance under this agreement. All such costs, **ADVANCES** and fees, for purposes of Section 12 below, shall constitute "charges present or future with respect to such **GOODS**".

SECTION 9 - LIABILITY AND LIMITATION OF DAMAGES

- (a) **COMPANY** shall not be liable for any loss or destruction of or damage to **GOODS**, however caused, unless such loss, damage or destruction resulted from **COMPANY'S** failure to exercise such care in regard to **GOODS** as a reasonably careful person would exercise under the same circumstances. **COMPANY** is not liable for damages which could not have been avoided by the exercise of such care.
- (b) **COMPANY** and **HOLDER** agree that **COMPANY'S** duty of care referred to in Section 9(a) above does not extend to providing a sprinkler system at the warehouse complex or any portion thereof.
- (c) Unless specifically agreed to in writing, **COMPANY** shall not be required to store **GOODS** in a humidity controlled environment or be responsible for tempering **GOODS**.

(d) IN THE EVENT OF LOSS OR DESTRUCTION OF OR DAMAGE TO **GOODS** FOR WHICH **COMPANY** IS LEGALLY LIABLE, **HOLDER** DECLARES THAT **COMPANY'S** LIABILITY SHALL BE LIMITED TO THE LESSER OF THE FOLLOWING: (1) THE ACTUAL COST TO **HOLDER** OF REPLACING, OR REPRODUCING THE LOST, DAMAGED, AND/OR DESTROYED **GOODS** TOGETHER WITH TRANSPORTATION COSTS TO WAREHOUSE; (2) THE FAIR MARKET VALUE OF THE LOST, DAMAGED, AND/OR DESTROYED **GOODS** ON THE DATE **HOLDER** IS NOTIFIED OF LOSS, DAMAGE AND/OR DESTRUCTION; (3) 30 TIMES THE MONTHLY STORAGE CHARGE APPLICABLE TO SUCH LOST, DAMAGED AND/OR DESTROYED **GOODS**; (4) \$0.50 PER POUND FOR SAID LOST, DAMAGED, AND/OR DESTROYED **GOODS**, PROVIDED, HOWEVER, THAT WITHIN A REASONABLE TIME AFTER RECEIPT OF THIS WAREHOUSE RECEIPT, **HOLDER** MAY, UPON WRITTEN REQUEST, INCREASE **COMPANY'S** LIABILITY ON PART OR ALL OF THE **GOODS** IN WHICH CASE AN INCREASED CHARGE SHALL BE MADE BASED UPON SUCH INCREASED VALUATION. NO SUCH REQUEST SHALL BE VALID UNLESS MADE BEFORE LOSS OR DESTRUCTION OF OR DAMAGE TO ANY PORTION OF **GOODS** HAS OCCURRED.

(e) **COMPANY'S** liability referred to in Section 9(d) shall be **HOLDER'S** exclusive remedy against **COMPANY** for any claim or cause of action whatsoever relating to loss and/or destruction of and/or damage to **GOODS** and shall apply to all claims including inventory shortage and mysterious disappearance claims unless **HOLDER** proves by affirmative evidence that **COMPANY** converted **GOODS** to its own use. **HOLDER** waives any rights to rely upon any presumption of conversion imposed by law. In no event shall **HOLDER** be entitled to incidental, special, punitive or consequential damages.

SECTION 10 - NOTICE OF CLAIM AND FILING OF SUIT

- (a) **COMPANY** shall not be liable for any claim of any type whatsoever for loss or destruction of or damage to **GOODS** unless such claim is presented in writing, within a reasonable time, not exceeding 60 days, after **HOLDER** learned or reasonably should have learned of such loss, destruction and/or damage.
- (b) As a condition precedent to making any claim and/or filing any suit, **HOLDER** shall provide **COMPANY** with a reasonable opportunity to inspect the **GOODS** which are the basis of **HOLDER'S** claim.
- (c) NO LAWSUIT OR OTHER ACTION MAY BE MAINTAINED BY **HOLDER** OR OTHERS AGAINST **COMPANY** WITH RESPECT TO THE **GOODS** UNLESS A TIMELY WRITTEN CLAIM HAS BEEN MADE AS PROVIDED IN SECTION 10(a) AND UNLESS **HOLDER** HAS PROVIDED **COMPANY** WITH A REASONABLE OPPORTUNITY TO INSPECT THE **GOODS** AS PROVIDED IN SECTION 10(b) AND UNLESS SUCH LAWSUIT OR OTHER ACTION IS COMMENCED WITHIN NINE (9) MONTHS AFTER **HOLDER** LEARNED OR REASONABLY SHOULD HAVE LEARNED OF THE LOSS AND/OR DESTRUCTION OF AND/OR DAMAGE TO THE **GOODS**.

SECTION 11 - PRODUCT INSURANCE

COMPANY does not insure **GOODS** and the storage rates do not include insurance on **GOODS**. **HOLDER** has the responsibility to obtain and maintain insurance on **GOODS** unless **COMPANY** has agreed in writing, to obtain product insurance for the benefit of **HOLDER**.

SECTION 12 - LIEN

COMPANY shall have a lien against the **GOODS** and on the proceeds thereof for all charges for storage, handling, transportation (including demurrage and terminal charges), insurance, labor and other charges present or future with respect to the **GOODS**, **ADVANCES** or loans by **COMPANY** in relation to **GOODS** and for expenses necessary for preservation of the **GOODS** or reasonably incurred in their sale pursuant to law.

SECTION 13 - WAIVER - BEVERABILITY

(a) **COMPANY'S** failure to insist upon strict compliance with any provision of this Warehouse Receipt shall not constitute a waiver of or estoppel to later demand strict compliance thereof and shall not constitute a waiver of or estoppel to insist upon strict compliance with all other provisions of this Warehouse Receipt.

(b) In the event any section of this Warehouse Receipt or part thereof shall be declared invalid, illegal and/or unenforceable, the validity, legality and enforceability of the remaining sections and parts shall not, in any way, be affected or impaired thereby.

SECTION 14 - AUTHORITY

HOLDER represents and warrants that it is (i) the lawful owner of **GOODS** which are not subject to any lien or security interest of others, or (ii) the authorized agent of the lawful owner and/or any holder of a lien or security interest, and has full power and authority to enter into the agreement incorporated into this Warehouse Receipt. **HOLDER** agrees to notify all parties acquiring any interest in **GOODS** of the terms and conditions of this Warehouse Receipt.

SECTION 15 - NOTICES

All written notices provided herein may be transmitted by any commercially reasonable means of communication and directed to **COMPANY** at the address on the front hereof and to **HOLDER** at its last known address. **HOLDER** is presumed to have knowledge of the contents of all notices transmitted in accordance with this Section within five days of transmittal.

SECTION 16 - GOVERNING LAW

This Warehouse Receipt shall be interpreted and construed under the laws of the State of Minnesota notwithstanding its conflict of laws rules.

SECTION 17 - MODIFICATION

The terms and conditions of this Warehouse Receipt cannot be modified.

Revised 8/15/11



FORM 56-01.00.
APPLICATION FOR EXCHANGE CERTIFIED
STORAGE FACILITY FOR APPLE JUICE CONCENTRATE

TO: MGEX

_____, operator or owner of the
facility located at _____

does hereby make application to MGEX for becoming a certified cold storage facility for the storage, handling and delivery of Apple Juice Concentrate (AJC) pursuant to futures contracts made on the Exchange. By signing this Application, the operator or owner agrees:

- a) they have read the Rules and Regulations of the Exchange and acknowledge they are bound by such;
- b) that representatives of the Exchange shall have full access to any financial records as requested by the Exchange and shall be allowed to visit the facility;
- c) they are subject to the Exchange's arbitration jurisdiction and bound by any decision respecting them thereunder;
- d) that at least 30 days before the expiration date or prior termination of the legal liability insurance policy in effect at any time, they will provide the Exchange with copies of the certificate or replacement policy so that insurance shall be in effect at all times during which warehouse receipts issued while a regular facility are outstanding;
- e) to provide stocks reports on a weekly basis or more frequent basis as required by the Exchange.

Before this application can be considered, the following documents must be included, if not already forwarded as required by the Rules and Regulations of the Exchange:

- 1) An audited financial statement as of the end of the last fiscal period certified by an independent public accountant in accordance with generally accepted accounting principles. If an audited financial statement is not available, a reviewed financial statement is acceptable. If a reviewed financial statement is not available, an income statement and balance sheet must be submitted. Applicants without an audited financial statement are subject to substantially higher financial thresholds.
- 2) A copy of an unaudited mid-fiscal year financial statement.
- 3) A copy of the certificate of liability insurance or the policy.
- 4) A copy of the current fee schedule or tariff listing the detailed storage and handling fees.
- 5) Any state or federal licenses to operate a cold storage facility and/or to handle processed food products such as Apple Juice Concentrate.

* If the applicant has more than one location they wish to have certified, a separate application is required for each location.



COMPANY INFORMATION

Name: _____

Address: _____

Telephone Number: _____

Describe Type of Warehouse License	Federal / State	License Number
1) _____	_____	_____
2) _____	_____	_____
3) _____	_____	_____

Has any license ever been suspended or revoked? Yes No

If yes, give dates of suspension/revocation and reasons:

Capacity:

Storage Capacity at Cold Storage Facility:

Square Footage (floor space) _____ Cubic Feet (capacity/volume) _____

Total Storage Capacity at ALL Warehouses Applying for Certification: _____ square feet

Tariff for Apple Juice Concentrate:

Storage per day per gallon: _____ / or per weight: _____ above 0°F

Storage per day per gallon: _____ / or per weight: _____ at 0°F or lower



CONTACTS

Contact Person: _____

Title: _____

Address: _____

Telephone Number: _____ **Fax Number:** _____

Email address: _____

Backup Person: _____

Title: _____

Address: _____

Telephone Number: _____ **Fax Number:** _____

Email address: _____

Backup Person: _____

Title: _____

Address: _____

Telephone Number: _____ **Fax Number:** _____

Email address: _____



The undersigned agrees to comply with all Rules and Regulations of the Minneapolis Grain Exchange, Inc. Additionally, the undersigned shall agree to subscribe to all of the applicable provisions of the Commodity Exchange Act and Commodity Futures Trading Commission regulations promulgated thereunder.

Return this form to:

MGEX

Attn: Corporate Secretary

400 S. 4th St,

Suite 130

Minneapolis, MN 55415

Phone: 612-321-7101

Fax: 612-339-1155

Completed by:

(Signature)

(Print name)

(Print title)

Date:

MGEX

Form 56-01.00.C
AJC Stock Reporting Form

Stocks of Apple Juice Concentrate ("AJC") in deliverable position within Exchange approved locations.

Warehouse name
Operated by
Report as of Close of Business on Friday

Instructions

WHO SHOULD REPORT - Every operator of an Exchange-approved Regular warehouse. All reports are held confidential.

WHERE TO REPORT - Forward by email to MGEX, Department of Audits and Investigations ("A&I") at compliance@mgex.com. This form must be completed and submitted in **Microsoft Excel** form unless permission to use some other medium is granted. Please direct questions to (612) 321-7101.

WHEN TO REPORT - Weekly, as of the close of business on Friday. Stock Reporting Form should be filed no later than 1:00 p.m. each Monday following the Friday covered by the report. If Monday is an MGEX-recognized holiday, the report should be filed no later than 1:00 p.m. on Tuesday. The Stock Reporting Form can be submitted as soon as Friday's final stock numbers are known. Please be aware that filing late or inaccurate reports will result in penalties pursuant to **MGEX Regulation 2068.00**. Reporting entities are encouraged to contact A&I with any questions.

DATE OF REPORT - The Friday date to which the reported stock figures apply.

WHAT TO REPORT - On a separate Stock Reporting Form for each warehouse, report the following independent items:

- (a) Total quantity of all AJC in store in the Regular Warehouse. This should include all AJC, regardless of ownership, quality or documentation.
- (b) Total quantity of all AJC which has no unexpired passing USDA Letter Report, has no failing USDA Letter Reports and has not been identified as non-deliverable based on quality.
- (c) Total quantity of all AJC which is known to **NOT** meet contract specifications for AJC futures, such as AJC with one or more failing USDA Letter Reports or quality criteria outside of the deliverable standards for AJC futures documented on the Certificate of Analysis.
- (d) Total quantity of all AJC which has been tested and for which an unexpired, passing USDA Letter Report exists.
- (e) Total quantity of all AJC which is represented by MGEX-approved negotiable warehouse receipts.
- (f) Count of the number of MGEX-approved negotiable warehouse receipts outstanding for AJC.

Apple Juice Concentrate

Quantity (in gallons)

(a) TOTAL AJC	0	
(b) POTENTIALLY DELIVERABLE AJC	0	
(c) NON-DELIVERABLE AJC	0	
(d) TESTED AND USDA APPROVED-AJC	0	
(e) TOTAL AJC REPRESENTED BY MGEX-APPROVED WAREHOUSE RECEIPTS	0	
(f) NUMBER OF MGEX-APPROVED NEGOTIABLE WAREHOUSE RECEIPTS ISSUED FOR AJC	0	

MGEX Apple Juice Concentrate Contract

Concise Explanation and Analysis

Minneapolis Grain Exchange, Inc. (MGEX or Exchange) has been researching and developing the Apple Juice Concentrate (AJC) contract since 2009. The AJC futures contract is a physically delivered commodity contract designed as a risk management tool and price discovery mechanism for the various segments of the worldwide AJC industry. The industry has experienced an annual compound growth rate of four percent since 1998. As the industry expanded to meet the growing needs of importers, buyers, blenders and consumers, cash price volatility increased creating a very unpredictable marketplace.

MGEX was approached by a representative of the Juice Products Association (JPA) seeking a means to manage risk via the futures markets. This association is one of the world's largest industry organizations for juice products and services, as well as jams and jellies, industry suppliers, food testing laboratories and importers. Nearly 200 companies are JPA members, representing 8 countries.

Many in the AJC industry were already utilizing futures and options contracts for frozen concentrated orange juice as part of a risk management strategy and reported the need for a similar tool in their apple business. As more and more of the AJC product used in the U.S. and Canada was imported from China, South America and Europe, the industry became more reliant on forward contracts. As with most commodities, weather plays a role in apple crop production and quality. On several occasions, processors were not able to fulfill the forward contracts because of low supply and the result was extremely volatile concentrate prices. Therefore the industry appealed to JPA for support and to extend resources for the development of a risk management and price discovery futures contract.

MGEX conducted extensive due diligence into the economic need and viability of an apple juice concentrate contract. The Exchange learned that the AJC industry has no pragmatic means, other than forward contracting, to hedge risk, and the opacity of the industry made public pricing and price discovery difficult at best. The lack of a means to ensure performance on a forward contract was also a problem. Therefore, the industry was interested in seeking a futures contract to lay off the counterparty performance risk and improve transparency.

Along the way, MGEX enlisted the USDA to begin collecting and reporting AJC cash pricing as part of their weekly National Apple Processing Report. The USDA has been able to gather participation from AJC importers, brokers, buyers, end users and co-operatives to confidentially share their pricing information with the USDA. Upon receiving an adequate number of participants and completing an eight week pilot program, the USDA began including cash market pricing for apple juice concentrate in the National Apple Processing Report on November 11, 2010. This price information is available as well on the MGEX website.

The Exchange also worked closely with the USDA to develop sampling and testing programs and procedures to ensure the AJC product meets the contract specifications required to deliver on the contract. Both the USDA Processed Products Division (PPD) and Science and Technology (S&T) will conduct various tests and provide a letter report after sampling is conducted indicating whether the sampled product passes or fails the required contract specifications.

When determining the most pertinent contract specifications, the Exchange worked with JPA and several AJC industry participants. Proposed contract specifications were disseminated to the AJC industry and made public. Extensive research was done by the Exchange to ascertain the varying degrees of acid, brix, color and other important components of apple juice concentrate to create specifications beneficial to the largest cross section of the industry. The acid level of apple juice concentrate can vary widely and is measured in malic acid. Low acid levels are considered to be in a range of 1.0 wt/wt to 1.5 wt/wt. High acid is considered to be a measurement of 1.6 wt/wt or higher. Much of the industry operates their AJC business using acid rates ranging from 1.0 to 2.2. Degrees Brix measures the sugar content of the concentrate. An industry standard for apple juice concentrate is not less than 70° brix. Color is also a vital component as it can affect the appearance of the end product such as apple juice or apple cider. Additional contract specifications include turbidity or the level of cloudiness caused by individual particles or suspended solids; total plate count (TPC) or the total viable bacterial growth; thermophilic acidophilic bacilli (TAB) or the measure of specific microbial presence; patulin or the amount of mold toxin; and yeast or the level of fermentation. With the input of the AJC industry, MGEX was able to develop specification most often sought by large producers and end users.

As MGEX began researching the delivery mechanism, the Exchange engaged public cold storage facilities currently holding AJC for customers. With the help of this segment, MGEX was able to ascertain the knowledge needed to incorporate the storage, handling and loading out of the product into the delivery mechanism. The Exchange also sought input from those entities engaged in cash market activity so as to best replicate the processes already in place without adding undue burden to any aspect of the current delivery system. Briefly, the delivery mechanism and those involved in the delivery process will follow this course of action:

1. After placing the AJC product in an Exchange approved cold storage facility, the product owner can request a negotiable receipt from the warehouse operator.
2. Warehouse issues a negotiable receipt to product owner.
3. When product owner wants to make delivery on the futures market, the owner requests the warehouse contact the local USDA office to sample and test the AJC product.
4. Upon USDA samples being pulled, the product must go directly to the freezer and be held at 0 degrees Fahrenheit until load out.
5. Product owner contacts broker or MGEX Clearing Member stating his intention to deliver on the futures market.
6. Clearing Member contacts MGEX Clearing House.
7. MGEX Clearing House assigns delivery.
8. On the delivery day, upon full payment of the product value and allocated storage fees, transfer of the warehouse receipt will occur.
9. Upon payment in full for all storage and related fees, the warehouseman will load out the AJC product.

Warehouses must meet certain financial and regulatory compliance requirements, including weekly reporting of AJC stocks in store. This latter stock information will be reported on the MGEX website.

Early draft regulations governing futures trading, options trading and delivery warehouses were submitted to the AJC industry for comment and posted on the MGEX website. Delivery warehouses are in primary storage locations for the AJC product.

MGEX believes the contract specifications and governing regulations provide for an effective and valuable futures and options contract for the AJC industry and market participants eager for a hedging tool. Further, the contract and trading terms should generate interest from speculators who can fill a liquidity role. Development of the AJC futures contract has been driven very much by industry demand and input.

The AJC futures and options contract will trade on the CME Group Globex® trading platform, as do all current MGEX products. The AJC contract will be cleared by the MGEX Clearing House, as are all MGEX contracts. Additionally, MGEX will monitor and conduct regulatory oversight, surveillance and enforcement as it does now for all MGEX contracts.

In light of the summary background information, explanation and evidence of due diligence provided above, MGEX believes the AJC contract meets the requirements of the Commodity Exchange Act, as amended, and Commission regulations promulgated thereunder. MGEX regulations provide for position limits, reportable positions, minimum price fluctuations, trading months and hours, daily price limits, settlement process and a delivery mechanism. As to whether the new AJC product meets applicable core principles, MGEX provides the following information.

Core Principle #2, Compliance with Rules. MGEX is submitting Chapters 54, 55 and 56 which will govern the trading of AJC futures and options, and physical delivery. These chapters as well as current MGEX Rules and Regulations will serve to prohibit abusive trading practice. The MGEX Department of Audits and Investigations will have full authority and ability to monitor the market, and investigate and enforce the Rules and Regulations.

Core Principle #3, Contracts not Readily Subject to Manipulation. AJC is a new contract without volume or open interest. However, MGEX has regulations governing the trading of the contract, and has the ability to monitor trade activity. The AJC cash market is large and growing with available supply, USDA is reporting prices in the cash market, and MGEX has position limits codified.

Core Principle #4, Prevention of Market Disruption. MGEX has the capacity and ability to monitor and prevent manipulation, price distortion, and disruptions of the delivery process through market and trade practice surveillance, and enforcement practices and procedures. MGEX has the ability to create and maintain comprehensive and accurate trade reconstructions.

Core Principle #5, Position Limits. While MGEX does not believe the product is readily subject to manipulation, MGEX has nonetheless adopted position limits. The combined and spot month limits (on a futures equivalent basis) are codified in Regulations 5411 and 5516. The spot month limit is set well below the 25% monthly deliverable supply threshold described in Part 151.

Core Principle #7, Availability of General Information, and Core Principle #8, Daily Publication of Trading Information. AJC terms and conditions, as well as trade volume and price information are or will be disseminated to the public and posted on the MGEX website pursuant to core principles #7 and #8.

Core Principle #9, Execution of Transactions. As noted earlier, the AJC futures and options will be listed on the CME Group Globex platform. MGEX will clear all the transactions executed on the platform as well as any non-competitive transactions such as transfer trades and exchanges of futures for physical or risk.

Core Principle #10, Trade Information. MGEX will record and save all trade information as part of an audit trail which will be fully accessible to the Department of Audits and Investigations for surveillance and enforcement purposes.

Core Principle #11, Financial Integrity of Transactions. MGEX, as a designated contract market and derivatives clearing organization will list and clear the AJC trades. Further, MGEX will continue to comply with monitoring the financial integrity of clearing members and futures commission merchants, as well as monitor the segregation of customer funds.

Core Principle #12, Protection of Markets and Market Participants. MGEX Rules and Regulations, in particular Chapters 7, 18 and 20, contain general and specific prohibitions against abuse of the markets and market participants, and also apply to the trading of the AJC contract. MGEX has the ability to enforce its rules and regulations, and take disciplinary action against those harming the market or market participants.

Additionally, MGEX engaged a well respected and commodities knowledgeable outside third party to provide an analysis and opinion on the design and viability of the AJC contract. His conclusions are supportive of the MGEX proposal and AJC contract terms and conditions. Furthermore, the AJC contract meets the economic needs of the marketplace. This proprietary and confidential report is available to the Commission if requested.

MGEX 07-07-12



APPLE JUICE CONCENTRATE
CASH MARKET OVERVIEW

I. INTRODUCTION

The domestic and world market for apple juice concentrate (AJC) is growing. AJC is imported into the U.S. for use as a natural sweetener in many processed food products. Most U.S. grown apples are directed to the fresh produce market or for applesauce rather than for juice processing. In recent years, fruit juice consumption has increased by 10% annually in developed countries, leading to a continuous rise in demand for AJC in the international marketplace.

The United States consumed an average of 680,000 tons of apple juice concentrate annually from 2008 to 2010. In 2010, 14 percent of the U.S. apple crop was used to make juice, according to USDA.¹ Reduced supplies of processing apples, less attractive prices for processing fruit, and increased imports of lower-priced apple juice concentrate have been hampering U.S. production in recent years.

Apple juice concentrate is imported into the United States primarily from China, Brazil, Argentina, Chile, and a number of countries in the European Union, including Germany and Poland. China's share of the market place as a global supplier for AJC is approaching 70 percent. Over the last decade, China has made progress in the development of its AJC industry to become the world's leading supplier – a position it is likely to retain because no other country can match China's supply of raw material. Consequently, China is set to continue as the world's largest apple producer and exporter of apple juice concentrate.

For the past two years, the domestic apple juice industry has actively sought a futures-based risk management tool because of the persistent volatility in AJC cash prices. Apple juice concentrate prices often fluctuate with the level of imports and the amount of U.S. apple crop processed into the concentrate. Historically, cash prices have experienced extreme volatility, primarily based on fundamental supply and demand, ranging from \$4.00 per gallon to \$20.00 per gallon. For example, in 1991 the prices of AJC rose substantially as fewer apples were diverted into concentrate due to fears surrounding the use of the growth regulator Alar used for ripening apples. The price of apple juice concentrate in 1993 plummeted because of bumper apple harvests in Germany and Eastern Bloc nations. Additionally, a larger share of 1992 domestic apple crop was diverted into the production of apple juice concentrate.

¹ 2010 USDA Non Citrus Fruits and Nuts Report published in July 2011 by the National Agricultural Statistics Service (NASS)

AJC prices hit record lows in 1998 due to the explosion of inexpensive Chinese AJC into the U.S. over the previous three years. Between 1995 and 1997, AJC imports from China increased 953 percent, while the price for Chinese AJC fell by 53 percent². During the same period, AJC imports from Hungary into U.S. increased 133 percent, while the price for Hungarian AJC fell 53 percent. In an effort to maintain their share of the American market against lower-priced competition, Chile and Argentina, also lowered their prices by 31 percent and 39 percent, respectively.

In November 2010, the U.S. Department of Commerce lifted a 10-year anti-dumping tax on Chinese apple juice concentrate following a full investigation and review of the import dumping by China into the U.S.³ Earlier in 2000, the U.S. Department of Commerce announced a ruling imposing an average tax rate of 14.88 percent on Chinese companies who disputed the charge, and a 51.47 percent tax rate on Chinese companies who failed to respond. Consequently, the U.S. market became more accessible while increased competition among Chinese companies further contributed to the price volatility of the AJC. Because of these factors, both buyers and sellers of AJC have experienced significant cash price risk.

II. DESCRIPTION OF THE CASH MARKET

MGEX's proposed futures contract on Apple Juice Concentrate (AJC) requires a fundamental description and understanding of the apple and apple juice concentrate markets. The following description of the apple juice concentrate industry will emphasize cash market activities.

A. Producers, Buyers and Sellers

An overview of the AJC market including supply and demand uses and global growth potential is as follows: AJC provides the industry with two basic products: 100 percent apple juice and a product used for blending. The acid level⁴ attribute of AJC determines the

² Fruit Growers News, May 1999 Issue, Matt McCallum

³ While the anti-dumping cases cover a broad product range of China's exports, a substantial portion of the investigations was targeted at China's steel products and industrial chemicals. Forty-four percent of all the cases involves China's export of base metals and industrial chemicals, followed by 12% of machinery and electrical equipment export and 8% of textiles export. "China And Anti-Dumping: Regulations, Practices And Responses Working Paper, 14 May 2009", by Le Thi Thuy Van & Sarah Y. Tong.

⁴ The determination of the total, or titratable, acid (TA) of our products is necessary to differentiate between varieties of fruit, amount of fruit present, and to determine levels of maturity. Total acid is standardized to either citric, malic, or tartaric acid

eventual end product as it affects the flavor profile. High acid AJC (1.6% and higher) is most often used for 100 percent apple juice products. Low acid (1.0% – 1.6%) AJC is most often used for blended products. The acidity of most Chinese AJC is in the range of 1.3% – 1.6%; however, AJC with acidity of 1.6% to 2.2% is also produced by China but in lesser quantities. The average acidity range for AJC imports from Chile and Argentina is approximately 1.4% to 1.7%. While there is "low acid" and "high acid" juice, the AJC industry wants a standardized futures contract to incorporate the vast majority of the world's supply.

The marketplace is split roughly 50/50 between the two products; however, the blending market has experienced a 4 percent compound growth rate over the past 25 years. (In contrast, the demand in the orange juice concentrate market has been down 30 to 35 percent over the past five years.) The market for 100 percent apple juice has also experienced growth, but at a lesser rate than the market for blended products. The growth of the blended market can be attributed to the ability to use AJC as the base for countless products including apple-based and other juice products, jams, jellies, protein drinks, teas and waters. From the tree, the fresh apple is the primary product. Those apples which do not meet specific fresh apple quality specifications are used to create the concentrate. Additionally, because AJC has a secondary market, there is a consistent supply. End users in both 100 the percent apple juice and blended products markets would be able to use the proposed AJC futures contract for pricing and risk mitigation purposes.

AJC is typically manufactured at 70° brix⁵ (measurement of the approximate sugar content) with a small part of the industry utilizing AJC at 20° brix. The value of 20° brix AJC imported into the U.S. in 2009⁶ was \$27 million while the value of AJC imports of 70° brix was \$412 million, more than a 1,300 percent increase over AJC imports at 20° brix.

Participation by country in the AJC marketplace varies. China produces about two-thirds of the world's annual production of apple juice concentrate. Global supplies of apple juice concentrate in 2007 totaled more than 1.5 million tons with the Chinese AJC exports at 1.04 million tons, or 70.56 percent of total trade. In 2008, China exported 692,900 tons of AJC, down 33.55 percent from 2007. The other major AJC producers are Poland, Argentina, Chile, Brazil and United States. There are five major Chinese processors and 25 to 30 smaller processors with a network of brokers. From a risk management perspective,

based on the predominant organic acid of a fruit (malic for AJC). Its measurement is used in conjunction with °Brix as a criterion of juice quality (brix / acid ratio). Acid affects the flavor profile; thus, acidity control, particularly in acidified products is necessary for maintaining sensory attributes.

⁵ Total soluble solids are the most important economic juice parameter to a juice processor; the higher the brix, the higher the value of the material. Degrees brix is expressed as grams of soluble solids per 100 grams of juice.

⁶ Foreign Trade Division Statistics Database of the US Census Bureau

Chinese processors utilize forward based contracting despite the price risk in the AJC market. Chinese processors are also working with industry organizations such as the Juice Products Association (JPA), US Apple and China Juice to find ways to mitigate price risk.

The Chinese Market

Given China's favorable climate and abundant rural labor supply, the U.S. and other importing countries view this nation as a strong supplier to the AJC market. China has the largest apple growing region in the world.

During the 2008-2009 production season, China's AJC exports dropped sharply due to price increase of juice and decrease of Europe's imports; in contrast, Chinese domestic consumption increased 200 percent versus the previous period of 2007-2008. Exports proportionate to the global total supply dropped to 70.09 percent from 78.22 percent in the 2007-2008 production season, while consumption rose to 10.06 percent from 3.4 percent. During the first six months of 2010, Chinese exports of apple juice concentrate decreased by 18 percent or 94,000 tons. Overall exports of apple juice concentrate reached 430,000 tons for 6 months in 2010, the lowest in the last 2 years.

China's apple juice production is gradually shifting to the western regions of the country, mainly to Shaanxi province. Historically, Shandong province has been the center of apple juice concentrate production in China, accounting for about half of the country's annual output. However, in recent years, many apple farmers in Shandong have been cutting down apple trees and shifting their energies to other fruit varieties in search of better returns. Fruit juice processing plants in Shaanxi continue to introduce new equipment and expand their investments. Shaanxi is now the largest apple juice-producing province, followed by Shandong.

While China's export of apple juice concentrate has grown rapidly and its growth rate has been higher than that of the global trade volume and consumption of apple juice concentrate, fears of a possible shortage of AJC grew for the 2011 harvest, according to FoodNews reports (November 2010). For more than two years, China's economy has raced ahead with the aid of a huge government stimulus program and aggressive lending by state-run banks. According to recent articles, major Chinese juice processors are paying three times the price for fresh produce in order to have product to process to fulfill domestic market contracts.

The European Market

The largest apple juice concentrate producers in the European Union (EU) are Poland, Germany, Italy, Hungary, Spain, Romania, and Austria. The combined output of these seven countries accounts for 95-98 percent of the total EU AJC production. The processing of apples results in several products including apple juice concentrate, cider, wine and brandy, apple sauce, preserves, canning, apple chips, and peeled apples for bakeries. Most EU AJC production occurs September through November. In 2006-07 the estimated combined production of AJC at 70° brix was 493,160 metric tons, representing 98 percent of the total production. In 2007-08, frosts and drought reduced apple production and, consequently, the AJC output in several countries. Damages and the subsequent reduction of output were the largest in Poland, Hungary, and Romania. In 2009-10, production decreased by 16 percent to 436,000 metric tons due to high production costs, low juice concentrate prices, high stocks, and declining demand⁷. The processing use of apples is expected to decline in 2010-2011 when compared to 2009-10 because of lower commercial apple production, especially in Poland, Hungary, Italy, and the Czech Republic. The share of apples used for processing varies significantly from country to country; ranging from 2 percent in France to well over 60 percent in Hungary. The processing share also varies from year to year. The average share of apples earmarked for processing in the EU is forecast to amount to about 23 percent of total supply in 2010-11.

In three of the leading producing countries (Poland, Hungary, and Romania), AJC production is the primary market for the fresh apples because of the availability of large volumes of industrial apples and limited alternative uses. In these countries, certain regions with a larger number of small and inefficient orchards rely on industrial apple production. In other countries such as Italy and Spain, AJC production serves as a channel for excess supplies or provides sales opportunities when AJC prices are high. Because of increasing production costs and lower cost non-EU imports, AJC production is declining in many EU countries such as the Czech Republic and Austria. Processing facilities owned predominantly by multinational companies have recently grown in the new EU Member countries and in the neighboring non-EU regions (Moldova, Ukraine). In these countries, industrial apples sources are available and labor and other associated costs are lower than in Western Europe.

⁷ USDA FAS Gain Report Fresh Deciduous Fruit EU-27, Nov 2010

A large portion of the raw material for AJC production in Europe consists of high acid apples. This is partly because of the climate, as apples grown under cooler temperature develop higher acid content. The apple varieties of the new European Union Member States still contain a high percentage of old varieties with a typical sour taste versus the “modern” table apple varieties dominating the variety mix of other countries. During the past several years, the EU food additive directive has given EU producers permission to use natural ingredients such as citric to achieve the more “sour” taste of apple juice preferred by European consumers. At the same time, the increased imports of cheaper, but sweeter AJC from China, gained an important share in consumption. Chinese AJC is naturally sweeter and has lower acidity. However the high acid European AJC remained essential for the fruit juice industry for blending with the sweeter Chinese AJC and the increasingly popular multi-fruit juice mixes. There is a quality concern with AJC produced in EU Member States. Because of outdated factories with significantly older processing equipment, EU AJC often contains excessive amounts of iron.

The European Union will continue to be a major producer of high acid AJC. While much of the European AJC might not be deliverable on the AJC futures contract as the standardized specifications for acid level are 1.0 percent to 2.2 percent, the EU countries will have the opportunity to utilize an exchange listed contract to hedge their price risk.

The South America Market

The South America market is mainly made up of Chile and Argentina. Chile’s production of AJC primarily reflects foreign demand and apple for processing availability. The Chilean apple juice industry mainly processes export rejects. The country’s apple industry has encouraged farmers to grow more sour-type apples and expand new plantings of apple varieties for juice purposes. The apple juice industry competes with the pulp and dried apple industry for the apples leftover from the fresh exported process. Limited amounts of AJC, principally single-strength juice, are consumed domestically. AJC competes with a variety of fresh and processed juices in Chile.

The United States is Chile’s largest AJC export market, accounting for 60 percent of total export sales⁸. As far as apple production, Chile is the largest Southern Hemisphere apple exporter, accounting for 15 percent of world exports and 2 percent of production. Production is primarily export-oriented, with the majority shipped to Northern Hemisphere markets. Despite shipping delays caused by adverse weather and an earthquake,

⁸ USDA FAS Gain Report Fresh Deciduous Fruit Chile, Oct 2010

production and exports in calendar year 2010 expanded due to strong demand by the United States and the EU.

Chilean exports to the U.S. market declined nearly 8 percent in 2006 according the USDA statistics⁹. Apple export levels drive increases in juice production. The greater the level of apples procured for the high standards of the export market, the greater the incidence of rejected apple which are then channeled into the juice processing market. The Chilean apple industry is shifting to more direct contracting for specific uses, in contrast to using culled apples grown for the fresh export market.

Argentina currently ranks fourth among all countries in terms of apple production levels. Higher apple production and greater availability of fruit bolstered Argentina's exports in 2005. In 2009, AJC exports remained stable at 45,000 metric tons, compared to 2008. Although apple production was larger in both production years, significant volumes of fruit were not harvested due to low prices and increased harvest costs, due in part to the labor union conflict with harvesters. AJC exports in 2010 decreased drastically to 30,000 metric tons due to smaller supplies of fruit for processing¹⁰. In addition, some fruit normally directed to processing was reoriented to the fresh market. Both the concentrate and the fresh apples were exported to Brazil, other neighboring countries and sold in the domestic market, all of whom were willing to pay relatively high prices. AJC production for 2011 is expected to rebound to 50,000 metric tons due to the larger supply of fruit for processing.

South America will continue to produce low acid AJC increasing the deliverable supply of AJC on the futures market. Chile and Argentina will have the opportunity to utilize an exchange listed contract to hedge their price risk, especially in light of the economic factors affecting the AJC industry in the coming years.

The United States Market

In the United States, few apples are grown just for juicing. Most juice apples are culled fruit from fresh packing lines. Moreover, profits to growers from processing apples are generally lower than fruit directed to the fresh market. In 1981, imports of apple juice concentrate into the U.S exceeded 100 million gallons for the first time and by 1985 exceeded 200 million gallons. The growth in imports of apple juice concentrate between 1979 and 1985 radically

⁹ USDA FAS Horticultural and Tropical Products Division, May 2006

¹⁰ USDA FAS Gain Report Fresh Deciduous Fruit Argentina, May 2011

altered the structure of the apple juice industry, both in the U.S and among its foreign suppliers. As a result, the dependence on locally available juice supplies diminished.

Major food processors such as Beatrice Foods, Campbell's Soups, Coca Cola, Tropicana and Gerber's were able to base nationally marketed brands of AJC on reconstituted imported concentrate. Bottling plants were set up near major ports of entry such as Philadelphia, New York, Seattle, Tampa and Baltimore. Local AJC processors were forced to lower their price and utilize lower cost imported concentrate to maintain price competitiveness of their consumer packs relative to national brands.

The United States is expected to remain a major net importer as U.S. import demand for apple juice concentrate continues its upward trend. U.S. imports are mostly concentrated non-frozen product. Apple juice imports from Argentina and China are, on average, the lowest-priced options to U.S. importers.

The Washington state apple industry is the largest in the country and includes the most efficient U.S. apple producers. Between 2004 and 2008, Washington had an average yield 37 percent higher than the U.S. average and accounted for 58 percent of total U.S. production. New York, Michigan, Pennsylvania, and California are also major apple-producing states; compared to Washington, however, they sell a larger percentage of their production in the domestic market and to the processing sector.

B. AJC Product and AJC Transactions in the Cash Market

Fresh apples are purchased primarily at harvest. August to December begins the active part of the season for acquiring fresh apples as this is harvest time in the Northern Hemisphere. Processors usually buy the fruit as it becomes available for processing and should start crushing in August. They will cold store it in their native warehouse and then export when a buyer purchases. Product will then come into the warehouses used by those importing countries.

Major processors will sell AJC through their U.S. based marketing firms to brokers, or directly to U.S. buyers and packagers. The major importers are U.S., the EU and Russia. Brokers may or may not take ownership of the product. Brokers and packagers are throughout the year shopping the market and buying as they get new deals. They will utilize meetings or communicate by phone or mail. Because it takes time to find it, buy it, ship it and receive it, this is an ongoing process and attention needs to be paid to lead time.

There is no inferior or superior product with apple juice concentrate. High acid product usually carries a premium and is available based on supply and demand factors as

it is used for 100 percent apple juice. Low acid product is used for blended products. Different geographical locations will normally produce a specific acid level based on soil conditions, etc. although a specific season may have a broad affect on the quality.

Having the MGEX futures contract specifications for a wide ranging acid between 1.0% to 2.2% would enable the seller, on a delivery if the product was low acid, to get the futures price, and if high acid, the freedom to choose either the futures or cash markets. This enables the possibility of both low and high acid products being delivered and economics would generally cause deliveries only in the product that had relative excess. The key issue in valuing high acid product differently than low acid is whether this price relationship varies considerably from one year to the next. Industry discussions have indicated that the variability may be from "even" in some years (representing excess supply of high acid) to \$2.00/gallon premium in other years.

The following charts illustrate the cash market participants as buyers/packagegers, suppliers and processors in the AJC industry, as well as the acid level specific to their AJC transactions in the marketplace. For the standardized futures contract on AJC, the specifications for acid are 1.0% to 2.2%.

Figure 1 illustrates the supply side of the industry, with 86 percent of the major AJC processors providing AJC in the range of 1.0 to 1.8% and 57 percent of the processors providing AJC to the marketplace in the range of 1.8 to 2.0%.

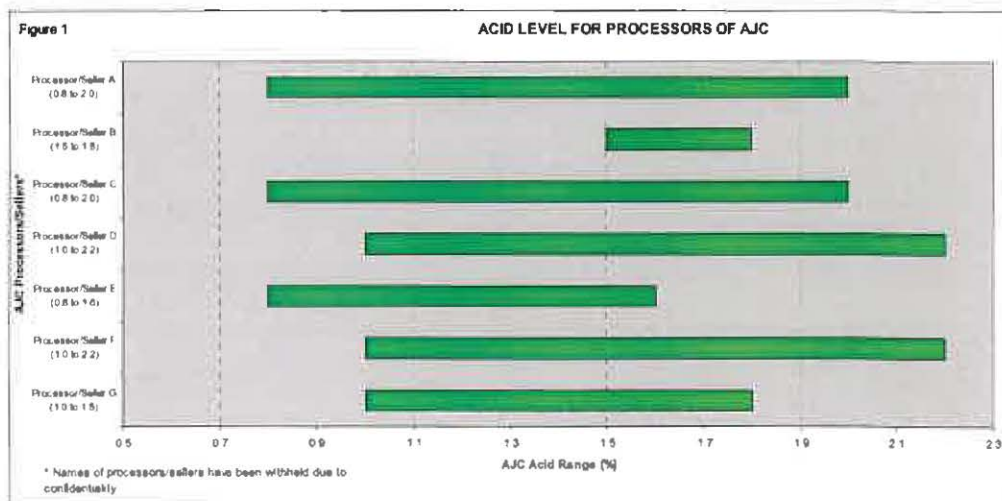


Figure 2 illustrates 75 percent of the major AJC buyers/packagegers buy AJC in the range of 1.1 to 1.6 percent; 92 percent of the buyers buy AJC in the range of 1.6 to 1.8 percent; and 42 percent of buyers buy AJC in the range of 1.8 and 2.2 percent.

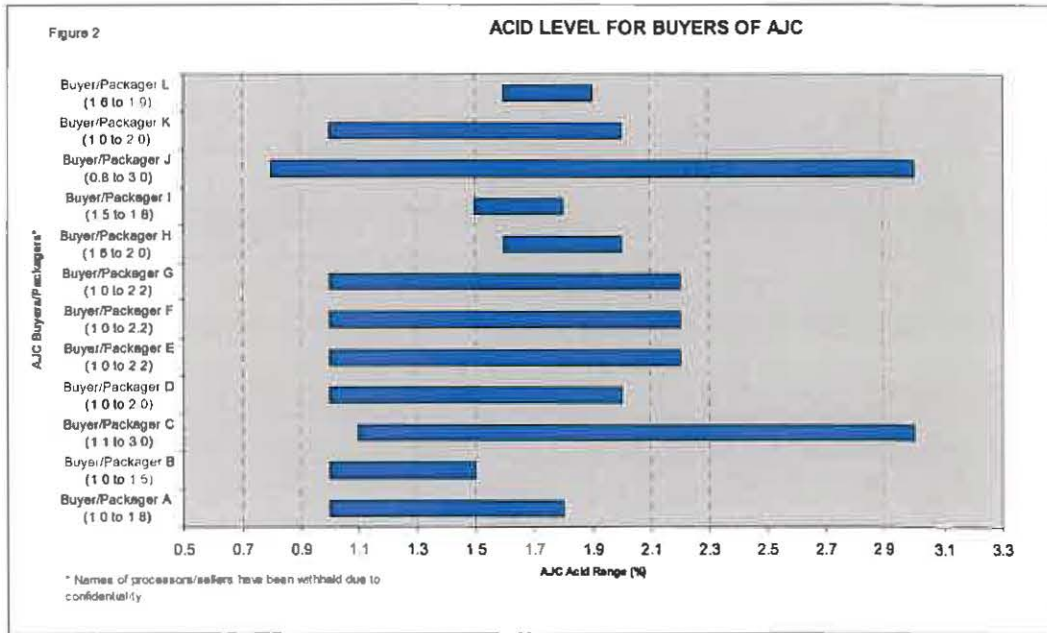
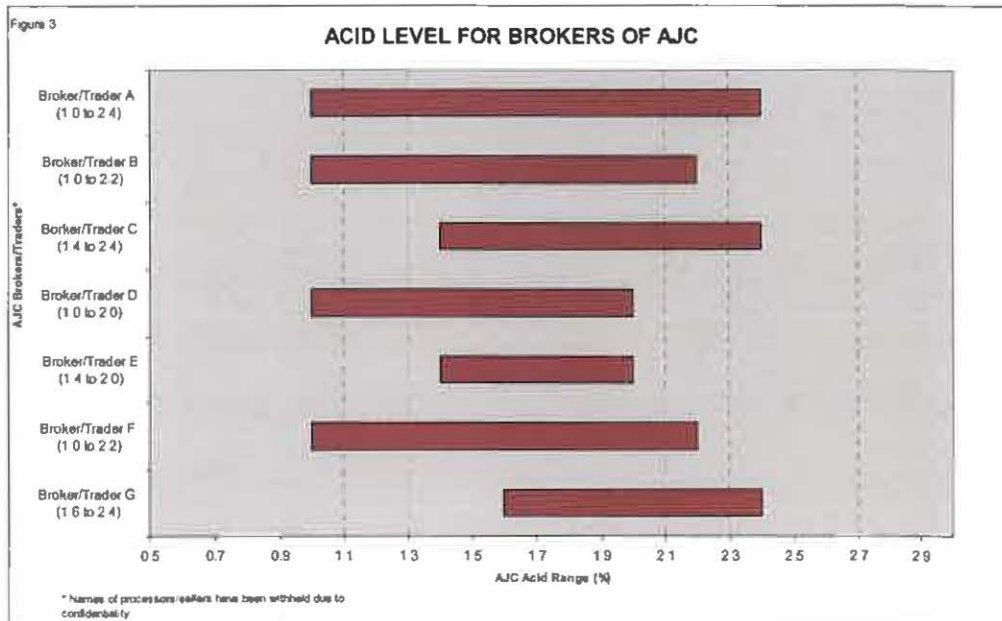


Figure 3 illustrates 100 percent of the major brokers utilize AJC in the range of 1.6 and 2.0 percent; 86 percent use the product between 1.4 and 1.6 percent, 57 percent of the brokers use AJC in the range of 1.0 to 1.4 percent; 71 percent of the brokers utilize the product in the range of 2.0 to 2.2 percent and 43 percent utilize AJC in the range of 2.2 and 2.4 percent.



Typically, buyers in the cash market hedge their AJC price risk with forward pricing. Purchases of AJC are made in the spot market, 3, 6 or 12 months out and can continue on a regular pace, depending on the season.

Imported AJC is generally shipped in an ambient state or in a cooler, until the buyer receives it and it could be then frozen at 0 degrees Fahrenheit at the discretion of the buyer in order to maintain the color. Color is an important attribute of the product which must be maintained; it has a limited shelf life at ambient temperature. When AJC product is stored in cold temperatures, the color is maintained longer.

The standard mode of conveyance of bulk quantities of AJC is a truckload, which constitutes 68 drums of 55 gallons each or 12 bins of 275 to 325 gallons each. Most Chinese processors deliver the vast majority of AJC product in drums, typically 4 drums to a pallet, floor loaded or banded. The port areas of New York, New Jersey, Baltimore, Philadelphia, Miami and Delaware are the main ports of entry for imported Apple Juice Concentrate. Eighteen percent of the AJC imports come into the US through west coast ports. However, this still represents a significant share of total U.S. imports.

The prevalent means of communication in the Apple Juice market include the telephone, fax, letters and personal contact between the parties involved. AJC sales are usually accomplished through transmittal of purchase orders specifying the price and quantity.

Chinese processors (suppliers) generally quote prices on a FOB basis, or "Free On Board", and are always used in conjunction with a port of loading. Indicating "FOB port" means the seller pays for loading and transportation of the goods to the port of shipment. The buyer pays cost of marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The passing of risks occurs when the goods pass the ship's rail at the port of shipment. The main Chinese port for exporting AJC is Qingdao. This is north of Shanghai and due west of South Korea.

Typically, AJC is imported by traders or importers who specialize in this facet of the trade. Processors or end-users will occasionally import product themselves. For Chinese processors, the total time from the time the terms of transaction are established, including transportation from the plant to the port and then to the east coast of U.S. is 6 weeks.

C. Sources for AJC Price Information

The AJC futures contract would perform a valuable service in promoting price discovery. There are two publications reporting weekly cash market prices based on

canvasses of dealer price quotes. Additionally, through the contribution of MGEX, the USDA Market News Division now collects and reports AJC cash market prices based on price quotes from a variety of producers, buyers and importers.

FOODNEWS is a publication for the global food and beverage trade. The publication provides in-depth coverage for fruit juices and concentrates, canned, dried and frozen fruits and vegetables, canned tomatoes, tomato paste, seafood, dairy products, nuts, herbs and spices for all manufacturers, processors, importers, exporters and traders. FoodNews is released on a weekly basis and it reports prices for Chinese and Polish AJC.

The Chinese price information is quoted in dollars per gallon and it is based on FOB. The Polish price data is quoted in euros per liter and it is based on ex factory (which is the factory price right out of the gate). Generally, AJC from Poland is shipped by ground and so transportation costs are lower.

On a regular basis, the following information on AJC is published by FoodNews: 1) import & export figures on a monthly basis; 2) production figures (in tons) on a quarterly basis and 3) prices on a weekly basis.

FOOD INSTITUTE (The American Institute of Food Distribution) is a central information organization that strictly accumulates and disseminates facts on the food industry. Its subscription-only publication is available weekly and it currently reports prices for Apple Juice Concentrate from domestic, Chinese, South American and European sources. The price information is quoted in dollars per gallon, it is FOB based on product arriving in New York or New Jersey port. The Food Institute reports prices as a range (for example \$5.30 - \$5.50).

The Food Institute regularly publishes the following information on AJC: 1) import and export figures on monthly basis; 2) production figures (in tons) on a yearly basis or as they come in, 3) prices on a weekly basis and 4) quarterly supermarket sales for bottle juices.

MARKET NEWS DIVISION is part of the USDA's Agricultural Marketing Services (AMS), Fruits & Vegetables (F&V) Programs, a government agency highly respected in the cash and commodities markets for its level of confidence, value and integrity. Market News collects and distributes weekly AJC price information to the marketplace via the National Apple Processing Report.

USDA recognized the uniqueness of the domestic AJC industry and the lack of price discovery. Developing a framework for AJC price reporting was in line with the USDA mission of supporting expanding commodities markets and creating services that generate economic value for the agricultural industry. Such an information system would be the first of its kind in the AJC marketplace. Market News, has already set a historical precedent in the reporting of other commodity prices similar to AJC in terms of market and unique characteristics, such as cotton and imported cut flowers.

As part of the initial efforts to build an AJC price reporting, Market News conducted a pilot program to assess the sufficient availability of spot transactions and offering price quote information from AJC market participants.

During the pilot program, which was implemented in August 2010, Market News contacted AJC industry members for price information, provided them with a weekly report and requested their comments and suggestions on potential improvements. Upon successful completion of the pilot program, Market News officially implemented the AJC price reporting as part of the Market News suite of apple industry reports in November 2010. The apple juice concentrate report is included with the weekly *National Apple Processing Report* at <http://www.ams.usda.gov/mnreports/fvwaplproc.pdf> and is available on the MGEX website at www.mgex.com/AJC.

The value of an AJC futures contract is enhanced with price information that is publicly available, reliable and not prone to market manipulation. USDA is highly respected in the cash and commodities markets for its level of confidence, value and integrity. As a result, the AJC industry values USDA's ability to provide this type of reporting service for the AJC marketplace for several reasons:

- 1) Confidentiality of Information
- 2) Price Representation
- 3) Value of Information

D. USDA Price Reporting Mechanism for AJC

The participants in the USDA price reporting program cover a wide range of the cash market, from major processors, to buyers, sellers and importers. The Market News reporter assigned to this program is located in the USDA Yakima, Washington office and has extensive experience working with the fresh and processed apple industry in Washington. Weekly, the Market News reporter contacts a range of producers, buyers and importers for

the following information: port of entry, country of origin, container (drums, bins, bulk), color, acidity, brix, price per gallon in US dollars FOB (freight on board).

E. History of AJC Price Information

The sources utilized for illustrating the history for AJC cash prices were USDA Market News, FoodNews and the Food Institute.

The attached documents represent the following:

- 1) USDA National Apple Processing Report
- 2) USDA Market News Weekly AJC Cash Price Reporting (August 12, 2010 to May 17, 2012)

NATIONAL APPLE PROCESSING REPORT



United States
Department of
Agriculture

Agricultural Marketing Service
Fruit and Vegetable Programs
Market News Branch

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Issued Weekly

Volume XXX – Number 14

Thursday December 8, 2011

2011 Crop

APPLES UTILIZED FOR PROCESSING IN 2,000 LB (1 TON) UNITS

Week Ending						Total To Date		Final
		12-Nov	19-Nov	26-Nov	3-Dec	2011	2010	2010
Appalachian (VA - WV - MD - PA)	Juice	4,342	3,356	558	1,422	38,621	34,561	56,700
	Canners	8,703	7,104	3,320	5,283	94,751	113,686	216,089
	Total	13,045	10,460	3,878	6,705	133,372	148,247	272,789
California	Juice	4,611	2,767	1,082	2,456	45,141	44,824	86,450
	Peelers	514	620	445	483	7,715	7,492	13,914
	Total	5,125	3,387	1,527	2,939	52,856	52,316	100,364
Washington	Juice	9,241	9,479	5,813	8,624	68,343	102,367	283,732
	Peelers	3,645	4,502	2,081	7,016	41,194	43,955	201,667
	Total	12,886	13,981	7,894	15,640	109,537	146,322	485,399
TOTAL		31,056	27,828	13,299	25,284	295,765	346,885	858,552

Revised figures in **BOLD**

APPLE JUICE CONCENTRATE IMPORTS - PORTS OF ENTRY EAST COAST: Prices for apple juice concentrate for the period December 1 - 7, 2011. Acidity 1.0-2.2 percent weight/weight as malic acid, color 40-70 percent, brix minimum of 70.0, various containers (drums, bins, or bulk liquid packaging). Sales Ex Doc, excludes freight charges, all duties paid, containers included unless otherwise stated. Prices offered to importers per gallon basis in U.S. Dollars. China \$12.00-12.25

APPALACHIAN DISTRICT (VA, WV, MD, PA) Trading very active for available supplies. Prices higher. U.S. One paid to growers and delivered to processors and includes contract sales and winter storage fees per hundredweight (cwt) 2 1/2 inch and larger Golden Delicious 14.00-17.00 mostly 17.00 few higher; York, Granny Smith and Ida Reds 13.50-15.50 mostly 15.00-15.50 few higher, McIntosh, Empire, Jonagold 12.50-14.50 mostly 14.00-14.50 few higher, Jonathan, Fuji, Spys 13.50-15.50 mostly 15.00-15.50 few higher. Straight loads of juice stock per hundredweight (cwt) U.S. Cider grade various varieties includes storage fees 10.00-11.00 occas 12.00-14.00. Quality and condition variable.

MICHIGAN: Trading is slow for juice and peelers. Juice apples are mostly 7.50 per cwt. With other trading at the minimum negotiated MACMA fall prices. The Michigan Processing Apple Growers Marketing Committee of the Farm Bureau's Michigan Agricultural Cooperative Marketing Association, Inc. has negotiated the following minimum processing apple prices with several processors for the 2011 crop. Prices are per cwt:
Jonathan 2-1/2 inches & up 14.00 Northern Spy 2-1/2 inches & up 12.25 Soft varieties 2-1/2 inches & up 10.50
Jonagold, Idared & Crispin 2-1/2 inches & up 13.25 Hard varieties (including Golden Delicious and Rome) 2-1/2 inches & up 12.25 Straight loads of Juice Apples 7.50
Apples under 2-1/2 inches in peeler loads 6.50

NEW YORK: Trading is moderate for available supplies. Prices for Juice Stock and Canners/Peelers steady. Purchase prices are variety and quality dependent. Prices for processing apples on Tuesday December 06, 2011 F.O.B. packing house or receiving station per cwt. 2011 crop:
Canners/Peelers – (Utilizing All Available Varieties): \$9.25-12.00, mostly 10.00-12.00 some high as 16.00, includes previous commitments. Juice Stock – (Utilizing All Available Varieties): \$8.50-11.00, mostly 9.00- 10.00, includes previous commitments.

WASHINGTON: 2011 Crop Trading active. Prices are generally unchanged. Offerings to processors moderate. Movement current week expected to decrease slightly. Prices for apples on Wednesday December 7, 2011 F.O.B. Packing house or receiving station Per ton 2011 Crop. Juice stock \$180.00-200.00 mostly \$200.00 occasional higher; peelers \$220.00-240.00 occasional higher.

NATIONAL SHIPPING POINT TRENDS

Unless otherwise stated, shipments, crossings or imports are for the weeks ending November 19, 26 and December 3, 2011, in that order in thousand hundredweight (cwt) or 100,000 pound units. Expected movement is for the period December 4-December 17, 2011. Prices are for Monday, December 5, 2011 compared to Monday, November 28, 2011. Unless otherwise stated, sales are F.O.B. Shipping Point Basis (including Delivered Sales, F.O.B. Shipping Point Basis) or port of entry and extra services are included. Prices represent open (spot) market sales by first handlers on product of generally good quality and condition unless otherwise stated and may include promotional allowances or other incentives. No consideration is given to after-sale adjustments unless otherwise stated. Brokerage fees paid by shipper are included in the price reported.

--APPLES

YAKIMA VALLEY AND WENATCHEE DISTRICT WASHINGTON---2011 CROP Shipments 1,009-896-1,095 (includes exports 395-365-422)---Movement expected to increase slightly. Trading active. Prices generally unchanged. Washington Extra Fancy carton tray pack Red Delicious 72s 22.00, 80-88s 20.00, 100s 17.00-19.00, 113s 16.00-18.00, 125s 16.00-17.00; Golden Delicious 72-80s 20.00-22.00, 88s 18.00-20.00, 100s 16.00-18.00, 113s mostly 16.00, 125s 16.00; Fuji 64-80s 22.00, 88s 20.00-22.00, 100s 18.00-20.00, 113s 18.00, 125s 16.00-18.00; Granny Smith 72-80s 22.00-24.00, 88s 20.00-22.00, 100s 18.00-20.00, 113s mostly 18.00, 125s 17.00-18.00; Gala 72s 24.00-26.00, 80-88s 22.00-24.00, 100s 20.00-22.00, 113s 18.00-20.00, 125s 17.00-18.00; Braeburn 72-80s 20.00-22.00, 88s 20.00, 100s 16.00-18.00, 113-125s 14.00-16.00. Washington Extra Fancy carton tray pack fine appearance Red Delicious 72-80s 24.00-26.00, 88s mostly 22.00, 100 20.00, 113s 18.00-20.00, 125s 18.00; Golden Delicious 72s 25.00-26.00, 80s mostly 26.00, 88s 22.00-24.00, 100-113s 18.00-20.00, 125s 16.00-18.00; Fuji 64-80s mostly 24.00-26.00, 88s 24.00-26.00, 100s 20.00-22.00, 113s 20.00, 125s 18.00-20.00; Granny Smith 72-80s 25.00-28.00, 88s 24.00-26.00, 100s 20.00-22.00, 113s 20.00, 125s 18.00-20.00; Gala 72-80s 26.00-28.00, 88s mostly 26.00, 100s mostly 22.00, 113s 20.00-22.00, 125s mostly 20.00; Braeburn 72-88s mostly 22.00, 100s 19.00-20.00. Exports to (listed by volume in descending order): Taiwan, Mexico, Canada, Hong Kong, Colombia, Indonesia, Thailand, Saudi Arabia, United Arab Emirates, Honduras, Venezuela, Guatemala, India, Philippines, Malaysia, Vietnam, Panama, El Salvador, Peru, United Kingdom, Singapore, Costa Rica, Dominican Republic, New Zealand, Israel, Trinidad-Tobago, Ecuador, Chile, Jordan, Nicaragua, Russia, Kuwait, China, Egypt, Bahrain, Sri Lanka, Bangladesh, Qatar, and the Bahamas. 2010 CROP Shipments 18-17-12 (includes exports 15-13-7).

MICHIGAN---Shipments 94-76-99---Movement expected about the same. Trading moderate. Prices Red Delicious and Golden Delicious film bags slightly lower, others generally unchanged. U.S. Extra Fancy cartons tray pack Gala 100s 24.00-26.00, Red Delicious and Golden Delicious 88s 20.00-22.00, cell pack McIntosh 96s 24.00-28.00. Cartons 12 3-pound film bags U.S. Extra Fancy 2-1/2 inch minimum Gala mostly 20.00-22.00, Red Delicious 16.00-19.00, Golden Delicious, Jonathan, Empire and Idared 16.00-18.00, McIntosh mostly 18.00-19.00, Braeburn, Fuji and Jonagold 18.00-20.00, Honey Crisp 32.00-36.00, Law Rome mostly 16.00. Size and color excellent with above average pack outs.

NEW YORK---Shipments 107-84-99---Movement expected to remain about the same. Trading moderate. Prices generally unchanged. Cartons U.S. Extra Fancy 12 3-pound film bags 2 1/2 inch minimum Red Delicious, McIntosh and Empire mostly 19.00-20.00, Gala 22.00-23.00, Cortland and Golden Delicious mostly 19.00-20.00, Macoun mostly 20.00-22.00, Rome mostly 16.00-17.00. Cartons U.S. Extra Fancy tray pack McIntosh 80s-88s mostly 24.00-26.00, 100s mostly 24.00-25.00; Gala 80s-88s mostly 27.00-28.00, 100s 26.00-27.00; Red Delicious 80s-88s mostly 24.00, 100s mostly 23.00; Cortland 80s-88s mostly 25.00-26.00, 100s mostly 23.00-25.00; Empire 80s-88s 24.00-25.00, 100s mostly 23.00-24.00; Macoun 80s-88s mostly 32.00-33.00, 100s mostly 31.00-32.00. Cartons U.S. Extra Fancy cell pack McIntosh 80s-88s mostly 24.00-26.00, 100s 24.00-25.00; Empire 80s-88s 24.00-25.00, 100s mostly 23.00-24.00; Cortland 80s-88s mostly 25.00-26.00, 100s mostly 23.00-25.00.

APPALACHIAN DISTRICT (MD-PA-VA-WV)---Shipments 27-14-29 (Export 3-4-5)

---Movement expected to increase. Trading moderate. Prices generally unchanged. Cartons 12 3-lb film bags U.S. Extra Fancy 2 1/2 inch minimum Red Delicious 18.00-19.00, Golden Delicious 18.00-19.00, Fuji 17.00-19.00, Red Rome 18.00-19.00, McIntosh mostly 18.50-19.00, Empire 18.00, Red Stayman 18.00-19.00. Cartons tray pack U.S. Extra Fancy Red Delicious 72s-100s mostly 20.00-22.00, Golden Delicious 72s-100s mostly 20.00-22.00, Red Rome 72s-88s 20.00-22.00, McIntosh 80s-88s 26.00. Export to Costa Rica and Honduras.

NEW ENGLAND---Shipments 11-9-8---Movement expected to remain about the same. Trading moderate. Boston wholesale market prices Monday, December 5, 2011, Carton tray pack U.S. Extra Fancy Maine Cortland 72s-80s 25.00, 88s 23.00-24.00; Honeycrisp 64s-72s 55.00. Carton tray pack U.S. Fancy Massachusetts Gala 125s 18.00. Cartons cell pack U.S. Fancy Massachusetts McIntosh 80s mostly 19.00, 96s-100s 18.00, 120s-140s 17.00. Cartons U.S. Fancy 12 3-pound film bags 2 1/2 inch minimum Massachusetts McIntosh 14.50; Gala 18.00.

--PEARS

YAKIMA VALLEY AND WENATCHEE DISTRICT WASHINGTON---Shipments 263-200-243 (includes exports 137-76-100)---Movement expected to increase slightly. Trading active. Prices generally unchanged. 4/5 bushel cartons wrapped U.S. One Bartlett 70-90s 22.00-24.00, 100s mostly 18.00, 110s mostly 16.00, 120s 14.00-16.00, 135s mostly 12.00; D'Anjou 70-90s 20.00-22.00, 100s mostly 20.00, 110s 18.00-20.00, 120s 17.00-19.00, 135s 15.00-16.00. Bosc (standard russet) 70-90s 22.00-24.00, 100s 20.00-22.00, 110s 18.00-20.00, 120s 16.00-18.00. Exports to (listed by volume in descending order): Canada, Mexico, Colombia, United Arab Emirates, Brazil, India, Venezuela, Russia, Hong Kong, New Zealand, Ecuador, Saudi Arabia, Israel, Peru, Indonesia, Guatemala, Panama, El Salvador, Singapore, Costa Rica, Sweden, Bahrain, Taiwan, Malaysia, Trinidad-Tobago, Chile, Vietnam, Tahiti, Thailand, Philippines, Honduras, and the Bahamas.

The USDA Agriculture Marketing Service, through the Commodity Procurement Branch of the Fruit and Vegetable Programs, buys fresh and processed fruits, vegetables and specialty items from industry vendors. The service provides people with nutritious food and removes surplus production from the marketplace. Both fresh and processed apples are included in these purchases. Information on commodity purchasing and invitation acceptances can be obtained on the web at: <http://www.ams.usda.gov/AMSV1.0/FVFoodProcurement>. Then click on the *Purchase Announcements* or *Weekly Purchase Reports* link in the middle of the page to proceed to the listing of current offers and purchase results.

No announcements currently.

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**AJC import prices and offers (per gallon)
from the following sources to East Coast
locations
8/12/2010 to 5/17/2012**

Date	China	South America
8/12/2010	5.50-5.85	n/a
8/27/2010	5.50-5.95	n/a
9/3/2010	5.50-5.85	6.00-6.10
9/9/2010	5.75-6.25	n/a
9/16/2010	6.35-7.00	5.80-6.20
9/23/2010	6.50-6.75	6.30-6.75
9/30/2010	6.50-7.35	n/a
10/7/2010	6.80-8.00	n/a
10/14/2010	7.00-8.00	n/a
10/21/2010	8.00-9.25	n/a
10/28/2010	9.00-9.75	n/a
11/4/2010	9.75-11.00	n/a
11/11/2010	9.50-10.75	n/a
11/18/2010	10.50-11.50	n/a
11/24/2010	10.90-12.00	n/a
12/2/2010	10.70-12.00	n/a
12/9/2010	10.50-12.00	n/a
12/16/2010	11.00-12.00	n/a
12/23/2010	11.00-12.00	n/a
12/30/2010	10.50-12.00	n/a
1/6/2011	10.50-11.50	n/a
1/13/2011	10.50-11.50	n/a
1/20/2011	10.50-11.50	n/a
1/27/2011	10.50-11.50	n/a
2/3/2011	10.60-11.50	n/a
2/10/2011	10.75-11.50	n/a
2/17/2011	10.65-11.50	10.75-11.50
2/24/2011	10.75-11.00	10.95-11.25
3/3/2011	10.75-11.25	10.70-11.00
3/10/2011	10.65-11.50	10.75-10.95
3/17/2011	10.60-10.90	n/a
3/24/2011	10.60-10.90	n/a
3/31/2011	10.70-10.85	n/a
4/7/2011	10.70-11.00	10.65-10.75
4/14/2011	10.70-11.00	n/a
4/21/2011	10.80-11.00	n/a
4/28/2011	10.80-11.00	n/a
5/5/2011	10.90-11.00	n/a
5/12/2011	10.40-10.90	n/a
5/19/2011	10.65-10.85	n/a
5/26/2011	10.60-11.15	n/a
6/2/2011	10.70-10.75	10.50-10.75
6/9/2011	10.70-10.85	10.75-10.90
6/16/2011	10.50-10.70	n/a

**AJC import prices and offers (per gallon)
from the following sources to East Coast
locations
8/12/2010 to 5/17/2012**

Date	China	South America
6/23/2011	10.50	n/a
6/30/2011	10.00-10.50	n/a
7/7/2011	10.50-10.75	n/a
7/14/2011	10.20-10.25	n/a
7/21/2011	10.20-10.25	n/a
7/28/2011	10.25-10.50	n/a
8/4/2011	10.25	n/a
8/11/2011	n/a	n/a
8/18/2011	10.25-10.75	n/a
8/25/2011	n/a	n/a
9/1/2011	9.75-10.00	n/a
9/8/2011	9.50-10.20	n/a
9/15/2011	9.75-10.00	n/a
9/22/2011	9.75-10.00	n/a
9/29/2011	n/a	n/a
10/6/2011	9.85-10.00	n/a
10/13/2011	n/a	n/a
10/20/2011	10.40-11.70	n/a
10/27/2011	11.20-11.85	n/a
11/3/2011	11.25-12.00	n/a
11/10/2011	11.50-12.85	n/a
11/17/2011	12.25-12.65	n/a
11/23/2011	12.00-12.75	n/a
12/1/2011	12.00-12.75	n/a
12/8/2011	12.00-12.25	n/a
12/15/2011	11.50-12.50	n/a
12/22/2011	11.50-12.50	n/a
12/29/2011	11.90-12.10	n/a
1/5/2012	n/a	n/a
1/19/2012	11.75-11.95	n/a
1/26/2012	11.75-12.00	n/a
2/2/2012	11.50-12.00	n/a
2/9/2012	11.75-12.10	n/a
2/16/2012	11.60-11.75	11.30-11.75
2/23/2012	11.25-11.55	11.25-11.50
3/1/2012	10.90-11.55	n/a
3/8/2012	10.50-10.90	n/a
3/15/2012	n/a	n/a
3/22/2012	10.40-10.50	n/a
3/29/2012	10.30-10.85	10.75-11.00
4/5/2012	10.40-10.50	n/a
4/12/2012	10.30-10.50	n/a
4/19/2012	10.00-11.00	n/a
4/26/2012	10.20-10.50	n/a

**AJC import prices and offers (per gallon)
from the following sources to East Coast
locations
8/12/2010 to 5/17/2012**

Date	China	South America
5/3/2012	10.25-10.50	n/a
5/10/2012	10.00-10.15	n/a
5/17/2012	9.75-10.25	n/a

Analysis of Deliverable Supply

As part of its analysis of deliverable supply, MGEX has been collecting data on stocks of AJC in store at anticipated locations and delivery facilities on the east and west coast. It must be noted that physical stocks in a delivery warehouse are only a subset of the potential deliverable supply which can be moved into deliverable position. As desired or needed, market participants have the ability to obtain supply in the spot market. Further, AJC product is moving into a warehouse on a frequent basis. Weekly stock movement is expected and supply is constantly arriving at ports. Therefore, relying solely upon limited stock information when determining what the spot month futures position limits should be is overly restrictive.

Nonetheless, MGEX believes it has reliable data on stocks in store at potential delivery facilities. On the east coast there is typically in store from 2 million to 4 million gallons of product. On the west coast there is approximately 1 million gallons at any single time. Again, this product is already in a potential delivery location.

The AJC futures contract is 1,800 gallons. Therefore, over 1,000 to 2,000 contracts could be potentially delivered on the east coast and over 500 contracts on the west coast. Considering AJC is a new contract and to help prevent any potential market manipulation, MGEX has chosen to further restrict the spot month speculative position limits to less than 25% of deliverable supply already in location. Specifically, MGEX has codified within Regulation 5411.00. that the spot month limit shall be 100 contracts.



HISTORICAL AJC STOCKS BY DELIVERY POINT

<u>REPORT DATE</u>	<u>EAST COAST STOCKS</u>	<u>WEST COAST STOCKS</u>	<u>TOTAL STOCKS</u>
8/5/2011	4,038,145	904,817	4,942,962
8/12/2011	4,067,136	1,093,369	5,160,505
8/19/2011	4,227,588	1,452,332	5,679,920
8/26/2011	4,448,872	1,180,630	5,629,502
9/2/2011	4,489,176	1,414,479	5,903,655
9/9/2011	4,529,780	1,332,752	5,862,532
9/16/2011	4,566,068	1,207,348	5,773,416
9/23/2011	4,827,909	1,205,668	6,033,577
9/30/2011	4,585,731	1,241,770	5,827,501
10/7/2011	4,277,239	1,167,639	5,444,878
10/14/2011	4,041,578	1,113,408	5,154,986
10/21/2011	3,651,722	1,013,187	4,664,909
10/28/2011	3,442,644	920,411	4,363,055
11/4/2011	3,111,815	807,543	3,919,358
11/11/2011	2,855,041	719,398	3,574,439
11/18/2011	2,604,060	1,170,691	3,774,751
11/25/2011	2,397,446	633,370	3,030,816
12/2/2011	2,323,090	570,660	2,893,750
12/9/2011	2,182,445	524,649	2,707,094
12/16/2011	2,058,484	504,981	2,563,465
12/23/2011	1,923,437	447,071	2,370,508
12/30/2011	1,727,565	439,305	2,166,870

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REPORT DATE	EAST COAST STOCKS	WEST COAST STOCKS	TOTAL STOCKS
1/6/2012	1,920,589	448,005	2,368,594
1/13/2012	2,055,342	474,372	2,529,714
1/20/2012	2,147,122	571,118	2,718,240
1/27/2012	2,200,874	586,294	2,787,168
2/3/2012	2,263,815	658,074	2,921,889
2/10/2012	2,507,986	679,772	3,187,758
2/17/2012	2,203,967	633,944	2,837,911
2/24/2012	2,220,939	545,738	2,766,677
3/2/2012	2,237,910	664,580	2,902,490
3/9/2012	2,115,274	650,674	2,765,948
3/16/2012	2,124,953	671,550	2,796,503
3/23/2012	2,154,810	731,857	2,886,667
3/30/2012	2,498,032	727,437	3,225,469
4/6/2012	2,169,758	823,576	2,993,334
4/13/2012	2,108,887	919,714	3,028,601
4/20/2012	2,043,562	914,085	2,957,647
4/27/2012	1,938,036	903,209	2,841,245
5/4/2012	2,758,247	848,650	3,606,897
5/11/2012	2,023,688	839,774	2,863,462
5/18/2012	1,865,144	845,300	2,710,444
5/25/2012	2,140,812	888,020	3,028,832
6/1/2012	2,097,015	893,658	2,990,673
6/8/2012	2,023,704	963,371	2,987,075
6/15/2012	1,995,925	869,523	2,865,448
6/22/2012	2,114,949	948,217	3,063,166
6/29/2012	2,386,306	952,183	3,338,489
7/6/2012	2,694,467	892,781	3,587,248

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REPORT DATE	EAST COAST STOCKS	WEST COAST STOCKS	TOTAL STOCKS
7/13/2012	2,742,979	891,129	3,634,108
7/20/2012	2,697,887	870,883	3,568,770
7/27/2012	2,650,404	843,307	3,493,711
8/3/2012	2,572,333	809,999	3,382,332

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