



High oil prices are set to be a feature on the corporate treasurer's landscape for the foreseeable future.

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World oil prices have increased dramatically since 2002 as a result of rising global demand and an increasingly tense geopolitical landscape. This has posed difficulties for large energy users with energy costs constituting an ever-increasing proportion of production costs. These costs continue to exert pressure on profit margins. This new paradigm has resulted in companies seeking to fix or limit exposure to energy risk. In response to the growing interest in this area, Bank of Ireland Global Markets has developed a suite of energy hedging products encompassing oil and distillates, gas and coal.

A shipping company had become concerned at the escalating cost of its fuel requirement. The company utilises Heavy Fuel Oil and had seen the cost per tonne double over a three year period. They asked us to provide an effective and robust hedge that would limit their exposure to further price hikes.

We offered the company a fixed rate swap on their Heavy Fuel Oil exposure. The company would pay a fixed rate price on 1,000 tonnes of Heavy Fuel Oil for twelve months. The Platts Index\* close was recorded on a daily basis and at the end of the month an

arithmetic average was calculated. This average was compared to the fixed rate and, if higher, a compensation amount would be paid to the company. If the fixed rate was higher, the company would pay Bank of Ireland Global Markets. This process would be repeated each month for the duration of the swap. The contract was a financial one and therefore did not impact upon the physical supply contracts the shipping company had in place. As with other swaps, no fee or up-front payment was required by Bank of Ireland Global Markets.

The price of Heavy Fuel Oil continued to rise that year in concert with Brent Crude which rose even more sharply as the impact of hurricane Katrina drove prices to record highs. The shipping company remained protected against these rises, however, receiving over US Dollars 700,000 over the life of the swap.

With volatile oil prices an increasingly permanent feature on the corporate treasurer's landscape, simple but effective hedging techniques such as the oil swap offer an opportunity to reduce this commodity risk.

\* leading market index