GEOS GROUP
Energy in Partnership

RISK MANAGEMENT SERVICES

The price of oil, and therefore the price of marine fuel, changes constantly as a result of political, economic and environmental events unfolding around the world all the time. A hedging strategy that is carefully structured to suit your requirements can significantly protect you against the financial risks associated with fuel price fluctuations. It will not eliminate risk entirely, and there may be an additional cost involved. Hedging tools offered by the Geos Group Ltd include:

THE SWAP

The swap contract, or 'fixed price paper', fixes the price of a volume of fuel to be delivered in the future. The buyer and seller agree an index price (which changes), usually based on figures from Platts – a provider of reliable benchmark price assessments in energy markets. When the index price moves above the agreed fixed price, the seller pays the buyer the difference; when the index price moves below the agreed fixed price, the buyer pays the seller the difference. This helps to flatten out price fluctuations over time.

THE CAP

The cap protects the buyer from rising prices, whilst enabling them to take advantage of falling prices. As with a swap, a fixed price and an index price are agreed upon. When the index price moves above the agreed fixed price, the seller pays the buyer the difference. However, if the index goes below the agreed fixed price, there is no payment due from buyer to seller. The fixed price therefore protects the buyer from rising prices, but allows them to benefit from price reductions. The buyer is required to pay an up-front premium for this service, which varies according to contract length, volume, price and market conditions.

THE COLLAR

The collar keeps the bunker costs within an agreed range. A maximum price (cap) and minimum price (floor) are agreed. When the index price moves above the cap, the seller pays the buyer the difference; when the index price is below the floor, the buyer pays the seller the difference. When the index price is in between the cap and floor, so within the collar, no payments are made. There is no up-front premium payment for this service, and the buyer only pays for protection when they can best afford it (when prices are low and below the floor).

THE SWAP OPTION (SWAPTION)

Here, the buyer of a cap has an option, but not an obligation, to buy a swap. So, if the market ends up above the swap price level, the buyer will exercise the right to enter the swap contract. There is an up-front premium to be paid for this service, which acts as a kind of insurance policy to the buyer.

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