Should Oil States Hedge Oil Revenues?

Conclusions

- At the end of the workshop, sentiment definitely favored hedging. "Alaska is a farmer of oil," says Brogard. "And farmers have hedged their crops for more than a century. Alaska has almost a fiduciary responsibility to hedge. How can Alaska continue to do nothing when the oil producers are hedging their revenues?"
- The choice of the ideal hedging instrument is not obvious. Opinions differed on whether to pursue a futures hedge, options insurance, a swap, a securitization plan, or a combination of the different tools. As Brogard said, "the actual decision to manage volatility and implement a price hedging program is really the key. The hedging instruments most suited will become obvious as the goals of the program are developed and defined by the hedging committee."
- Alaska should promptly initiate a pilot hedging program and an education effort to gain "hands on" expertise and public awareness. If Alaska has in place a hedging capability and another world event takes place to drive up prices, Alaska could take advantage of the opportunity to lock in high forward oil prices.
- While hedging alone cannot solve Alaska's fiscal gap, closing the gap and locking in prices through hedging are interrelated problems. "For example," said Shimko, "assume Alaska can fill in its current fiscal gap. Later, if oil prices fall significantly, Alaska is immediately faced with a new fiscal gap. Thus, a closed budget gap can stay closed if oil revenues are secured."
- Hedging is superior to maintaining a reserve as a method of smoothing a volatile revenue stream. Saving windfalls to cushion shortfalls is difficult, and government forecasts of oil prices are typically underestimated.
- Alaska can elect to establish different hedging percentages for different time periods. Since the markets are deeper in near months, Alaska can hedge a higher percentage of its oil revenue near-term. Alaska can then progressively increase the hedging percentages as time elapses. 

Mary Lindahl
University of Alaska, Anchorage

Publications


Calendar


14-17 April 1996, Eleventh International Symposium on Alcohol Fuels. Sun City, South Africa. Contact: Professor R K (continued on page 32)
IAEE MEMBERS

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Dutkiewicz, Energy Research Institute, University of Cape Town, PO Box 207, Plumstead, Cape Town, 7800, South Africa. Fax: 27-021-705-6266.


29 October - 2 November 1996, Energy and Power 96 - EP China '96. China International Exhibition Centre, Beijing, P.R. China. Contact: Mr. Perry Tang, Adscale Exhibition Services Ltd., 14/F, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. Phone: 852-25163346. Fax: 852-25165024.


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