



Aily Chairs International Conference on Fuel Price Risk, Singapore

Aily Armour Biggs of Global Energy Advisory was pleased to chair the recent IQPC Conference in Singapore covering various topics associated with fuel price hedging and risk management. The 3-day seminar was seen as the most important in Asia and was well-attended by representatives of major airlines, banks, exchanges, oil and shipping companies, and featured an opening address given by Mr Mohammed Barkindo, acting Secretary General of OPEC.

Mr Barkindo discussed some critical themes around stability in the energy markets, urging for an open dialog with consumers covering in particular their contribution to the G8 conference, the emergence of China as an energy-hungry global power and the critical need for investment in the energy sector. He also cited by way of example that OPEC had plans to invest \$100bn to



develop oil resources in both OPEC and non-OPEC countries. He also made mention of market-related developments, such as the increasing activity of hedge funds in the energy sector and the current refinery bottleneck leading to a less favourable increase in stocks by the oil majors.

Other speakers from NYMEX, Qantas, Kenya Airways and Lloyds Registers, provided different industry perspectives around these and other central themes. It was evident as the speakers shared their hedging challenges and successes, albeit against a background of considerable price uncertainty, that the optimization of hedging strategy is now paramount and firmly in managements focus as they try to cope with a future of profit swings and future punishing fuel price volatility.

A number of concerns were discussed in workshop and panel question-and-answer sessions, some of which will involve Global Energy Advisory directly in upcoming development projects. Major and regional airlines, well-represented within the conference, are now facing exceptional fuel-related cost pressures, combined with increasingly-complex decision scenarios regarding whether, what and how much to hedge. Whilst some operators appear to be managing an efficient hedging policy, a few well-documented cases exist where inconsistent and risk-prone trading decisions have led to catastrophic trading losses for the operators concerned. These were discussed extensively during the conference.

Global Energy Advisory guest speaker David Marshall highlighted some relevant risk management and compliance issues in this context, including the impact of International Financial Reporting Standards on hedging strategy and policy. Drawing from 20 years' experience in financial services, asset management and investment banking, David made the comparison that, until relatively recently, fund managers and traders at the top of their professions were often reluctant to enter into transactions involving commodity derivatives, unless they or their organizations had satisfactory levels of competence and robust risk management controls, thereby giving them the confidence to do so.

David specifically asked conference participants to consider whether they had developed strong and effective corporate governance, well-understood risk management strategies and documented implementation procedures and controls in addressing their respective hedging requirements and objectives. The likelihood was that even if the underlying hedging strategy was successful in the short term, unless adequate attention was given to these key considerations from the outset, firms might not necessarily achieve compliance with increasingly-demanding accountancy and regulatory standards.



The Merlion, symbol of Singapore, also known as The Lion City

Given these developments and challenges within energy-dependent firms, we highlighted the need to adopt comprehensive but nonetheless flexible solutions aimed at satisfying regulators and investors amongst other stakeholders. In a themed presentation entitled 'IFRS – Taking Back Control of the Agenda', David outlined the unique features and capabilities of Global Energy Solutions, a joint initiative between Global Energy Advisory and its software development partner Microgen, in addressing many of the issues specifically arising with energy trading and hedging activities across a wide range of industries.

Using Microgen's Aptitude organizational toolkit, Global Energy Solutions allows firms to combine overall corporate strategy, risk management objectives and related procedures and controls within one seamless interactive management, communications and reporting environment. This effectively enables senior management within the firm to define, implement and monitor strategic objectives within a tight and consistent risk management framework. One immediate benefit would be to make it much harder for the activities of 'rogue traders' to remain undetected over any substantial period of time.

Another benefit is the transparent auditability of the Global Energy Solutions approach to risk management, which records compliance as it happens, and allows errors and inconsistencies to be speedily identified and corrected. We made the point that under IFRS, Sarbanes Oxley and other key regulatory standards, the expectation was not that organizations would be required to get all their trading decisions right all of the time, but rather to demonstrate awareness of risks and an ability to minimize their recurrence. David concluded by suggesting that these inherent capabilities would going forward, be recognized as the key differentiators between well-run, bankable organizations and corporate accidents waiting to happen, citing a quote by Warren Buffett: 'It is better to point out your own mistakes than have others do it for you.'

Aily is also taking part in the Energy Trading & Risk Management Asia 2006 conference on the 28-30 November 2006 at the Grand Hyatt, Singapore. The core theme of the conference is a discussion of the future volatility caused through the end of oil.

Global Energy Advisory supports firms and industries in the energy sector in achieving better risk management.

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Global Energy Advisory

Global Energy Advisory comprises seasoned experts in the global energy market: entry criteria are a minimum of 20 years' experience in related disciplines. At the core of our expertise is one of the most sophisticated middle offices, which offers proprietary modelling to enable us to unveil and quantify global commodity market uncertainty. We then draw on our team of senior advisors and eight consultants to complement and enhance our modelling scenarios, providing unrivalled clarity in an uncertain energy future.



Fast Track System Development

Our solutions company – Global Energy Solutions – works closely with Microgen plc, one of the City's leading business software companies, to offer clients a clean, efficient and fast track delivery. Microgen's Aptitude business process management and business rules framework enables us to advise on best practice price risk management, implementation and control, as well as fast, comprehensive and controlled implementation of company-wide risk systems.



Together, Global Energy Advisory and Global Energy Solutions can assist you with:

- energy mergers & acquisitions.
- strategic energy policy.
- energy asset valuation and optimisation.
- trade book and risk management audits.
- IAS 39 accounting methodologies.
- energy market regulation and compliance.
- global energy market cross-commodity consultancy.