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De-Risking Fuel Supply in Pacific DMCs: Strengthening Resilience through Fuel Price Hedging

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Structural exposure to fuel price shocks drives the need to de-risk



Pacific DMCs' heavy
reliance on imported fuels

Global oil price movements

Exchange rate fluctuations

and



Recent events

Middle Eastern
crisis

Strait of Hormuz
disruptions

*translate
into*



Higher import
costs

Tariff pressure

Fiscal stress

De-risking fuel supply by separating fuel price volatility exposure from physical fuel procurement



De-risking fuel supply through fuel price hedging

Physical risk mitigation has limitations in managing price volatility

Financial derivatives

Futures

- Standardized contracts
- Less flexible but liquid



Options

- Protect against price increases
- Allow upside if prices fall



Swaps

- Lock in fuel price over time
- Flexible



Benefits of fuel price hedging



Improve price stability



Budget certainty



Cost reduction

While hedging offers benefits, it also carries risks that must be actively managed



The main challenges in de-risking fuel supply stem from governance



**Key takeaway
so far**

Stakeholder
roles

Decision-
making
process

Accountability

Governance

Margin
requirements

Collateral

Financial



**What
countries are
working
toward**

Building the foundations for readiness to de-risk fuel supply

Institutional
architecture

Legal and
regulatory
framework

Governance
and oversight

Operational
mechanisms

Why de-risking fuel supply matters now for Pacific DMCs



Similar exposure
across Pacific
DMCs



Growing need for
proactive risk
management



Promote regional
knowledge sharing

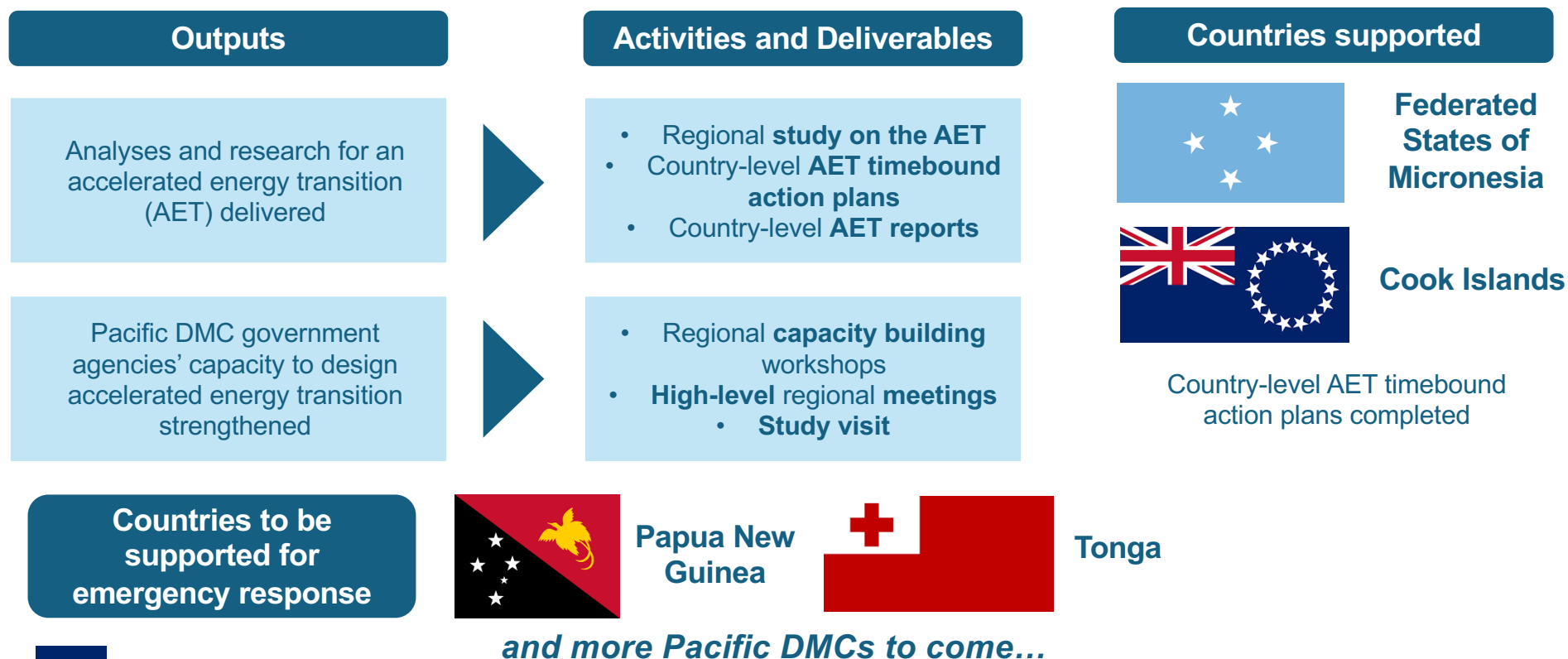


Enabling energy
transition through
macroeconomic
stability



How ADB supports Pacific DMCs in de-risking fuel supply

TA 10153-REG: Regional Initiative on Accelerated Energy Transition for the Pacific Small Island Developing States



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Thank you
