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Hedging Fuel Price Risk in the Canadian Department of National Defence: An Exploratory Study

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ABSTRACT

The objective of this paper is to investigate the application of private sector commodity hedging techniques within the Canadian Department of National Defence. While the existing literature predominantly delves into financial risk management in the private sector, this study fills a gap by exploring the potential for hedging in the public sector. The paper establishes a rationale for the relevance of hedging in the public sector, emphasizing its role in mitigating cash flow volatility, thereby enhancing budgeting and forecasting capabilities. By minimizing the size of fuel budget surplus or deficit at the end of the fiscal year, this approach enables a more optimal allocation of resources. Specifically, it reduces the likelihood of diverting funds from high-priority projects due to a deficit or allocating surplus funds to low-priority endeavors.

Keywords: Hedging, commodity, public sector